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IN THE

Supreme Court of the United States

OCTOBER TERM, 1951.

No. 340

JULIUS HYMAN & COMPANY, a Corporation; JULIUS HYMAN, individually and as President and Director of Julius Hyman & Company; ROBERT SILBER, individually and as Secretary and Director of Julius Hyman & Company; CHARLES A. BECKWITH, DANIEL E. BONNELL; NICK D'AMORE; ABE DANISH; EDWARD DESPRES; HENRY DUDLAK; ERNEST FREIREICH; REX E. LIDOV; WILLIAM E. MCCAULEY; THOMAS MCKENNA; ROY J. MILLER; STEVE POCSIK; HOWARD ROSENBAUM; YUJI TAJIMA; JAMES F. WHITE; FRITZ WOLF and SIMON ZEVIN, *Petitioners,*

v.

VELSICOL CORPORATION, *Respondent.*

PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF THE UNITED STATES AND BRIEF IN SUPPORT.

CLAUDE PEPPER,
Attorney for Petitioners.

PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

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PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF THE UNITED STATES AND BRIEF IN SUPPORT.

To the Honorable Chief Justice of the United States and to the Associate Justices of the Supreme Court of the United States:

Your petitioners above named, JULIUS HYMAN & CO., ET AL., pray that a Writ of Certiorari issue to the Supreme Court of the State of Colorado to review the judgment of

that Court filed as modified June 25, 1951, affirming and modifying a decree of the District Court of Denver, Colorado, awarding a decree against petitioners in a sum exceeding one million dollars and granting an injunction against petitioner's use of certain formulas and processes for the manufacture of an insecticide known as chlordane.

SUMMARY STATEMENT OF THE CASE.

The events culminating in this petition began with a joint venture aptly characterized by the trial judge in this case as follows:

> "One man had the brains and the other had the money, and one furnished the brains and the other furnished the money. The man who furnished the genius had no capital, as I understand it, and that relationship continued and was built up from, you might say, an actual capital outlay of $16,000 to a potential of over a million dollar concern." (R. 2, fol. 3361)

The man with the brains was Dr. Julius Hyman, a brilliant 29 year old chemist who in 1931 had two patent applications pending covering uses of certain polymers which he had discovered in the residue from the refining of gasoline from crude petroleum. The product covered by the applications for patents was a synthetic fast drying oil substantially equivalent to linseed oil. (R. 2, fols. 798-805)

The man with the money was Joseph Regenstein, a cousin of Hyman, whom Hyman approached with the proposal that they develop the subjects of the Hyman patent applications. (R. 2, fol. 807) Regenstein agreed with Hyman to enter upon the joint venture of developing the subjects of the two applications. Regenstein, his lawyer and an associate worked out the corporate structure Regenstein and Hyman were to employ in the enterprise. (R. 2, fol. 1526, 1675) They organized a corporation, known first as Varnoil Corporation and later as Velsicol Corporation, with $20,000.00 capital stock, $16,000.00 of which was issued for cash to two of Regenstein's corporations, Transo Cor-

poration and Arvey Corporation, and $4,000.00 to Hyman in return for the assignment of his two patent applications to the corporation. (R. 2, fols. 1518, 1519) Hyman was not entirely satisfied with his 20 percent of the company for his two patent applications in view of the small capitalization, but he accepted the arrangement. (R. 2, fol. 2339)

Regenstein became the President of the corporation and was consulted in financial matters. (R. 2, fol. 1557) Hyman became Executive Vice-president and Director of Research, and was its actual operating head. (R. 2, fols. 1517, 1557) The organization and operation of the business were conducted somewhat informally, with few formal meetings of stockholders or directors. (Ex. 13)

After a slow beginning the business progressed; in 1937 Velsicol completed a plant at Marshall, Illinois. In order to meet operating deficits and finance the building of the plant, Regenstein's two corporations loaned substantial sums to Velsicol. (R. 2, fols. 934-936) During these years Hyman contributed many inventions to Velsicol. (R. 2, fol. 2162) In the early forties the company began to earn profits, and by 1943 it had erased its operating deficit. (R. 2, fols. 944, 2162, Exs. 22-25)

In 1943 Hyman invented a process for production of vitamin K, a blood clotting vitamin. (R. 2, fol. 2159) By this time he had assigned 37 of his inventions to Velsicol without consideration and Velsicol was at last in sound financial condition. Hyman notified Regenstein that he would not assign this or future inventions to Velsicol unless he was compensated in some way. (R. 2, fols. 2162-65) Regenstein insisted that Hyman continue to assign patents and assured him that his greater participation in the company "would be worked out to his satisfaction." (R. 2, fols. 1735, 1742) Hyman, in reliance upon this assurance of Regenstein, assigned this patent application and others in due course until 1945. (R. 2, fols. 2167, 2377)

In that year, Hyman invented an insecticide, now known as chlordane, tests of which showed great promise. (R. 2, fol. 964) Patent applications were duly filed for the inven-

tion in this country (R. 2, fol. 964); petitioners offered proof of the filing of similar applications in England, Belgium and several other foreign countries and of the publication of the invention in Belgium in April and May 1946 and in England in January 1947. (R. 2, fols. 3007-15, R. 5, fols. 3573, 3580, Exs. 34-36) Hyman did not assign the patent applications for this invention.

In 1946 he demanded of Regenstein, as a condition of assigning this invention, an increased interest in the company. (R. 2, fols. 2206-8) Regenstein insisted that the invention be assigned and represented that the increase in interest would then be discussed and arranged. (R. 2, fols. 1568, 1705) In view of the 1943 incident Hyman refused to rely on this representation. Both Regenstein and Hyman consulted attorneys. (R. 2, fols. 1756, 2222-3, 2389) Hyman was advised by counsel that he was justified in his contention that he was not obligated to assign these applications, and continued his refusal. (R. 2, fol. 2389, 2390) On September 13, 1946, Regenstein formally demanded of Hyman that he assign them or resign. (R. 2, fol. 2225) Hyman resigned. Shortly thereafter the directors controlled by Regenstein voted to initiate suit in Illinois against Hyman for the assignment of these insecticide patent applications and the corporation brought suit. (Ex. 13)

Early in December 1946 Regenstein brought about a recapitalization of Velsicol whereunder shareholders were privileged to buy 34 new shares for each share held. (R. 1, fols. 348-63, Ex. 13) Regenstein's two corporations paid for their stock with their notes of the corporation which then totaled $528,000.00. Hyman was unable to raise $136,000.00 to exercise his warrants. The new stock was issued at $10.00 per share rather than at a price equal to the actual value of the outstanding shares, which was in excess of $1000.00 per $10.00 par share (R. 2, fol. 1691), or even at their book value, in excess of $150.00 per share. (Ex. 28) The result of the recapitalization was that Hyman's equity in the company was reduced from 20 per-

cent to less than 1 percent, and the book value of his interest was reduced from approximately $70,000.00 to less than $7,000.00, and its actual value reduced in the same proportion and in an even greater amount.

Of this transaction the trial court in this case said:

> "* * * In other words, assuming he (Dr. Hyman) is wrong, this thing of just one man turning over and wiping him out by a twist of the wrist because he has the money, because he has the credit, because he has the control. After he comes at odds and ends with Dr. Hyman, he turns the switch over night and Dr. Hyman has one percent. His profits are based on that, whereas before it was based on 20 percent." (R. 2, fol. 3196)
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> * * * * * * * * *
>
> "* * * it appeals to me that if they (these facts) are true that Dr. Hyman is being wiped out. And, as a Chancellor sitting in a Court of Equity, that does not appeal to me. Assuming this corporation was indebted to the extent that it was, it appears now that it has now become a solvent, money-making concern; and that by a twist of the finger, so to speak, what was a debt is being fostered into a money-making apparatus; instead of giving 4% the money is being turned in to wiping out Dr. Hyman's interest, and take any profit that he might earn to make that loan make money in excess of the interest. It just does not appeal to me, gentlemen." (R. 2, fols. 3186, 3187)

Thus after having contributed 15 years of his life and many valuable inventions to this highly successful venture of which he was unquestionably the key figure, Hyman emerged with only an insignificant stock interest greatly reduced even from the admittedly insufficient interest he had theretofore owned, jobless and faced with the necessity of defending a suit for the assignment of the chlordane patents.

In the late fall of 1946 Hyman located and leased a war surplus plant in Denver, Colorado, organized Julius Hyman & Co., and by March of 1947 was in production of chlordane. (R. 2, fols. 1010-24)

On April 11, 1947, Regenstein had Velsicol file his suit in the District Court of the City and County of Denver, Colorado, against Hyman, his corporation and a number of former Velsicol chemists and employees who had left to join Hyman in Denver. The complaint alleged that chlordane belonged to Velsicol; that Hyman signed an agreement dated January 31, 1931 "that any and all inventions, improvements, discoveries, formulas or processes relating to oils, paints, varnishes or any of the ingredients or products thereof or relating to the manufacture or production of oils, paints, varnishes or any of the ingredients or products thereof, invented, discovered or learned by the undersigned during the term of his employment by the company—will be the sole and absolute property of the company—and the undersigned at all times, both during his employment and after the termination of his employment, will keep all of the same secret from everyone except the company . . ."; that the other individual defendants signed certain secrecy agreements with Velsicol; that they and Hyman were also bound by confidential relations not to disclose their knowledge of chlordane; and that Julius Hyman & Co. acquired the process by the disclosures of Hyman and the other defendants in violation of their secrecy agreements and with notice of such secrecy agreements. The bill prayed for a decree awarding Velsicol all the profits made by Hyman & Co. from the sale of chlordane, damages, and an injunction against the defendants' producing chlordane. (R. 1, fols. 1-82)

In his answer Hyman denied signing any agreement with Velsicol, admitted that Velsicol had shop rights authorizing it to continue to manufacture chlordane but asserted that he was the owner of the invention which he licensed to Julius Hyman & Co., and further alleged that the process had been disclosed by Velsicol and was in the public domain when Julius Hyman & Co. employed it. (R. 2, fols. 235-296)

The answer of Julius Hyman & Co. adopted the defenses of Hyman's answer. (R. 3, fols. 298-303) The other individual defendants, while admitting the signing of secrecy agreements, in all other respects joined in the defenses stated in Hyman's answer. (R. 2, fols. 305-319)

The District Court granted the injunction, decreed that Julius Hyman & Co. pay damages and account for all its profits from chlordane to Velsicol, and granted other relief. The accounting resulted in a judgment for $1,559,063.30 profits and $100,000.00 special damages for reducing the price of chlordane. The Supreme Court of Colorado affirmed the lower Court, modifying the accounting judgment to a net sum of $1,238,789.10 profits and $100,000.00 damages.

The decree of the District Court was based on its finding that Hyman "agreed to devote his time to said corporation (Velsicol) as a chemist perfecting the ideas contained in said patent applications (referring to the two petroleum by-products applications assigned in 1931), *and to devote his time and efforts to develop new uses for petroleum refining by-products* at a salary to be agreed upon from time to time as the condition of the company might warrant, and that all inventions and discoveries (pertaining to uses of petroleum refining by-products) were to be kept secret and assigned to the plaintiff corporation " (italics and material in parenthesis ours); that the other individuals signed agreements to keep secret the products of Velsicol; that Hyman converted Velsicol's property; that all the individual defendants breached their secrecy agreements; and that Julius Hyman & Co. was unlawfully appropriating Velsicol's trade secrets to its own use. (R. 2, fols. 3373-94)

During the trial the Court sustained objection to petitioners' offer of evidence of the British patent applications and consequent publication of chlordane, making the process a part of the public domain (R. 2, fol. 3183); subsequent to the trial the Court denied petitioners' motion, based on an affidavit of the Belgian patent disclosures and others, to

dissolve the injunction and find no damages. (R. 5, fols. 3570, 3643)

The Supreme Court of Colorado sustained these findings of the trial court and made the additional finding, expressly rejected by the trial court, that Hyman and the other individual defendants were bound by their confidential relations with Velsicol not to disclose chlordane. It affirmed the rejection of their evidence of publication on the ground that they were estopped to take advantage of the publication of the invention. (R. 6, p. 54)

Meanwhile, in the Velsicol suit against Hyman in Illinois, for assignment of the chlordane application, the Supreme Court of Illinois had entered a judgment, which has become final, reversing the Appellate Court of Illinois, First District, and requiring Hyman to assign.

Meanwhile, also, Hyman had sued Velsicol and Regenstein and the other directors to set aside the recapitalization on the ground of fraud. In that case the Appellate Court of Illinois, First District, had entered a judgment, which has become final, reversing the Superior Court of Cook County, Illinois, and dismissing Hyman's complaint on the ground that the recapitalization was justified by the high ratio of debts to capital stock which had existed prior thereto, and was not fraudulent as to Hyman because he was offered an opportunity to purchase additional shares pro rata.

Thus the Supreme Court of Colorado would write an end to the venture of Regenstein and Hyman with Regenstein owning the very profitable property of the venture, including forty of Hyman's inventions; with Regenstein having a judgment of over a million dollars against Hyman, his company and associates; with Hyman's new business for developing his invention destroyed and Hyman enjoined from the use of his own invention. In short Hyman will have been ensnared in Regenstein's corporate web and financially devoured.

JURISDICTION.

This Court has jurisdiction under 28 U. S. C. Section 1257, subsection (3), because the Colorado Supreme Court refused to allow petitioners the right to present the evidence which would have voided the agreement not to disclose a trade secret which the Court enforced in its decree, thus violating the Sherman Act. (15 U. S. C. Section 1) That is, the agreement the Court enforced, being in restraint of trade, was valid only if it involved a trade secret. Yet the Court refused on the ground of estoppel to allow petitioners to present evidence to show no trade secret existed because the same had been eliminated by publication.

Cases relied on to support jurisdiction on this ground include *MacGregor* v. *Westinghouse Electric and Manufacturing Co.*, 329 U. S. 402 (1947); *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173 (1942); *Nutt* v. *Knut*, 200 U. S. 13 (1906); *Conmar Products Corp.* v. *Universal Slide Fastener Co.*, 172 F. 2d 150 (C. A. 2d, 1949).

This Court has jurisdiction of this cause under the same section for the further reason that petitioners claim under the Fourteenth Amendment to and the commerce clause of the Constitution of the United States (Article 1, Section 8, clause 3) the right to manufacture and sell in interstate commerce a product of petitioner Hyman's own invention of which right the judgment of the Supreme Court of Colorado deprives them without any evidence that Hyman precluded himself from the exercise of that right by agreement and without any basis in law for the Court's holding that under the facts of this case Hyman was precluded by his relations with Velsicol from its exercise.

Cases relied on to support jurisdiction on this ground include *United Gas Public Service Co.* v. *Texas*, 303 U. S. 123 (1938); *First National Bank of Hartford, Wis.* v. *City of Hartford*, 273 U. S. 548 (1927); *Southern Pacific Co.* v. *Schuyler*, 227 U. S. 601 (1913); *United States* v. *Joint Traffic Ass'n.*, 171 U. S. 505 (1898); *Butchers' Union Slaughter House & Livestock Landing Co.* v. *Crescent City*

Livestock Landing & Slaughter House Co., 111 U. S. 746 (1884).

The judgment of the Supreme Court of the State of Colorado was entered May 28, 1951, (R. 6, p. 19), and its order denying petition for rehearing and modifying its opinion was entered June 25, 1951. (R. 6, p. 18)

QUESTIONS PRESENTED.

1. Is the judgment of the Supreme Court of Colorado in conflict with the anti-trust laws of the United States in restraining competition in subject matter not covered, at the time of the breach of any fiduciary or contractual obligation, by a subsisting trade secret?

2. Was a rule of estoppel properly invoked to exclude evidence of the non-existence of the secrets as a result of public disclosure, in enforcing a contract in restraint of trade whose validity as an exception to the anti-trust laws is based upon the protection of trade secrets?

3. Does the judgment of the Supreme Court of Colorado deprive petitioners of their constitutional right to engage in interstate commerce in that it is based upon a finding, that the secrecy agreement found to have been executed by Hyman with respondent covered his invention, chlordane, which is without evidence to support it?

4. Does the judgment of the Supreme Court of Colorado deprive petitioners of their constitutional right to engage in interstate commerce in that it is based upon a finding, that petitioner Julius Hyman executed a secrecy agreement with respondent covered his invention, chlordane, which is against the weight of the evidence?

5. Does the judgment of the Supreme Court of Colorado deprive petitioners of their constitutional right to engage in interstate commerce in that it is based upon a finding, that petitioner Julius Hyman was bound by his relations with respondent not to disclose his invention, chlordane, which was erroneous as a matter of law?

REASONS FOR GRANTING THE WRIT.

1. Chlordane is an important insecticide and petitioner Julius Hyman & Co. an important producer thereof, the only competitor of respondent. The effect of the judgment of the Court below is to destroy competition in this field. The judgment on the accounting and damages feature of the case was for the sum of $1,338,789.10; an accounting will follow for a substantial additional period if the decision below remains undisturbed. The immediate subject matter of the case is thus important to the public as well as to petitioners.

2. The decree of the Supreme Court of Colorado is in conflict with the Sherman Act in affirming on the ground of estoppel the refusal of the trial court to allow petitioners to present evidence showing that respondent had in filing applications for foreign patents made a public disclosure of and put into the public domain the trade secrets which were the subject of the agreement not to disclose found to exist and enforced by the Colorado Supreme Court. Thus the Colorado Supreme Court denied petitioners by estoppel the right to prove the essential fact which would have made the agreement not to disclose enforced by the Court void as a restraint of trade in violation of the Sherman Act.

3. The holding of the Colorado Supreme Court that petitioners were estopped by the agreements and confidential relations the Court found to exist from asserting the publication of the trade secrets is contrary to federal law that a restraint of trade must be based upon facts justifying the restraint and not upon an estoppel to deny those facts. The judgment of the Colorado Supreme Court enjoining petitioners from competing with respondent in interstate commerce thus imposes upon petitioners and the public a restraint of trade without the warrant of a subsisting trade secret.

4. The question whether a person who has violated a trade secret is estopped to show the publication of the

trade secret and his right of access to it as a part of the public domain is a subject of conflict between the Courts of Appeals of the Second and Seventh Circuits in the cases of *Shellmar Products Co.* v. *Allen-Qualley Co.*, 87 F. 2d 104 (C. C. A. 7th, 1936), *cert. den.* 301 U. S. 695 and others in the Seventh Circuit and *Conmar Products Corp.* v. *Universal Slide Fastener Co.*, 172 F. 2d 150 (C. A. 2d, 1949) and others in the Second Circuit. The Colorado Supreme Court in the case at bar has followed the decisions of the Seventh Circuit. The public interest requires that the confusion resulting from this conflict, already producing lengthening lines of divergence, should be settled by this Court.

5. The federal policy as announced in the anti-trust laws is and has been to encourage free competition. Federal policy as announced in the patent laws is and has been to encourage the publication of inventions. The decision of the Colorado Supreme Court, by unduly enlarging the protection surrounding alleged trade secrets and minimizing the effects of publication, frustrates these important federal policies. The prejudice to the public interest in free competition is highlighted by the fact that damages of $100,000.00 were actually awarded to respondent in this case for injury to its business arising out of petitioners' competitive reduction in the price of chlordane. Thus is the salutary effect as regards the public of petitioners' competition and the pernicious effect of the lower Court's judgment demonstrated.

6. The basis of the Colorado Supreme Court's judgment denying petitioners their constitutional right to engage in their chosen business is the dual finding that petitioner Hyman was bound by express agreement and by implied obligation arising out of confidential relations not to disclose his invention, chlordane. The finding that petitioner Julius Hyman obligated himself by contract not to manufacture chlordane is totally without support in the evidence, in that the only agreement alleged or proved did not relate

to or cover chlordane. The finding that confidential relations obligated him to the corporate creature of his joint venture not to manufacture his own invention is a flagrant misapplication of the doctrine of confidential relations. The effect of these egregious errors is unfairly to deprive an inventor of his own invention, and him and his associates of the right to earn their livelihood in their chosen business.

7. The effect of the judgment of the Supreme Court of Colorado is thus unlawfully to deny to petitioners the right to compete with regard to an important product knowledge of which is in the public domain and to deny the public the benefit of such competition.

WHEREFORE, it is respectfully submitted that this petition should be granted.

CLAUDE PEPPER,
Attorney for Petitioners.

BRIEF IN SUPPORT OF

PETITION FOR WRIT OF CERTIORARI

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TEXT BOOKS:

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BRIEF IN SUPPORT OF PETITION FOR CERTIORARI.

OPINIONS OF THE COURTS BELOW.

The opinion of the Supreme Court of Colorado (Mr. Justice Alter speaking for the Court *en banc*) appears in volume 6 of the record at page 19 and is reported in ——— Colo. ———. The findings of fact of the District Court for the City and County of Denver appear in volume 2 of the record at folios 3373-3394. The decree of the District Court appears in volume 2 at folios 3529-3546, and the judgment on acounting appears in volume 5 at folios 5618-5626. The findings, decree, and judgment of the District Court are unreported.

JURISDICTION.

The jurisdictional statement appears in the accompanying petition.

STATEMENT OF THE CASE.

The essential facts of the case are stated in the accompanying petition.

SPECIFICATION OF ERRORS.

The Supreme Court of Colorado erred:

1. In sustaining the exclusion by the District Court of petitioners' evidence of the publication of the trade secrets in issue.

2. In holding that an injunction restraining petitioners from using the asserted trade secrets comprising the subject matter of this litigation is a proper remedy irrespective of whether such trade secrets existed as trade secrets at the time or were in the public domain through disclosure.

3. In applying a doctrine of estoppel against petitioners to support the injunction and money award on the theory that petitioners were tort feasors where such estoppel deprives petitioners of the right to establish that the trade secrets were, in fact, in the public domain and thus operates to effect an unlawful restraint of trade.

4. In failing to follow federal public policy as established by the anti-trust laws of the United States and the decisions of this Court and in affirming the judgment of the District Court in disregard of and in conflict with such federal public policy.

5. In effecting by its affirmance of the judgment of the District Court a restraint of interstate commerce in chlordane unsupported by a statutory or common law right.

6. In affirming the determination of the District Court of Denver that petitioners were barred from manufacturing chlordane without any specific finding of the District Court that petitioner Hyman had obligated himself by contract not to disclose chlordane or any evidence to support such a finding.

7. In determining that petitioner Hyman, a party to a joint venture embodied in corporate form and a founder and co-owner of the resulting corporation, was bound by an implied obligation to treat his own invention, chlordane, as the property of the corporation and to keep it a secret, even in the absence of an agreement to this effect.

ARGUMENT.

I.

The Judgment of the Supreme Court of Colorado in Enforcing an Agreement in Restraint of Trade as to Alleged Trade Secrets, by Improperly Applying Estoppel to Deny Proof of Their Disclosure, Requires Review by this Court.

A. The lower Court judgment enforces an unlawful restraint of trade.

Petitioners have made the argument at every opportunity in this case that to support a judgment and an injunction against their use of the chlordane processes, which is otherwise in unlawful restraint of trade, said processes must be secret. They have offered proof that all trade secrets had been eliminated by publication in connection with respondent's program of patent applications on the invention in several foreign countries prior to their alleged wrongdoing. (R. 2, fols. 3007-15, R. 5, fols. 3572-83, Exs. 34-36.) They have offered proof that the chlordane formulas were disclosed to Department of Agriculture representatives in April 1946, and published by the Department widely in February 1947. (R. 2, fols, 3015, Ex. 40.)

The reason for the rejection by the District Court of petitioners' proof is not a matter of record. (R. 2, fols. 3018-24, R. 5, fol. 3643.)

The Supreme Court of Colorado appears to have held that the evidence was immaterial because petitioners are estopped to take advantage of the publication of the secrets. It states that because the disclosures through the patent applications were directed by Hyman, because petitioners obtained their knowledge of chlordane in confidence from Velsicol rather than from any published sources, and because petitioners' laboratory production of chlordane was begun before the British publication (treated by the Court for some reason as though it were the only foreign publi-

cation), the publication of the invention under the foreign patent applications "did not result in a public disclosure and place the same in the public domain insofar as these defendants are concerned." (R. 6, pp. 53-55.) The Court clearly mistakes the law and misconstrues the facts.

The raising of an estoppel to give respondent a right to enjoy a restraint of competition as to a non-existent secret is manifestly improper.

(1) *It is wrong in principle.* Respondent's monopoly of its trade secrets cannot survive their disclosure. The granting of the privilege of monopoly of trade secrets and of entering into restrictive agreements to prevent competition as to these secrets forms a special exception to the general principle that monopolies and agreements in restraint of trade are abhorrent to the American system of free economy and illegal. Protection of the secret being the reason for the exception, without the secret the exception vanishes. The Colorado Supreme Court misstates the question it was called on to decide in casting it in terms of whether petitioners were entitled to claim the benefit of publication of the secrets. In this as in any lawsuit, the question is whether the complaining party has received an injury to a right. Respondent's recovery must be based upon its rights, not petitioners' wrongs. Upon publication of its secrets it had no further rights which could be damaged by petitioners' conduct. As stated in *Hamilton Mfg. Co.* v. *Tubbs Mfg. Co.*, 216 Fed. 401, 407 (C. C. W. D. Mich., 1908):

> "The property in a secret process is the power to make use of it to the exclusion of the world. If the world knows the process, then the property disappears. There can be no property in a process, and no right of protection, if knowledge of it is common to the world."

To grant respondent a recovery against petitioners based on their profits from production during the period after publication and to enjoin them from future competition is

to impose a penalty for petitioners' conduct rather than to grant compensation for violation of a right. No legal basis has been shown or could exist for such a penalty. *See Conmar Products Corporation* v. *Universal Slide Fastener Co.*, 172 F. 2d 150, 156 (C. A. 2d, 1949).

(2) *It is contrary to authority.* This Court has repeatedly held that a restraint of trade cannot be based upon an estoppel, but must rest upon facts justifying the restraint. In cases where patent licenses contained price-fixing agreements illegal as in restraint of trade unless supported by valid patents it has held that the licensee could not be estopped to claim the invalidity of the patent. *MacGregor* v. *Westinghouse Electric and Manufacturing Company*, 329 U. S. 402 (1947); *Edward Katzinger Co.* v. *Chicago Metallic Manufacturing Co.*, 329 U. S. 394 (1947); *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173 (1942). This Court's ruling in *Scott Paper Co.* v. *Marcalus Manufacturing Co.*, 326 U. S. 249 (1945) is even more to the point. There an employee assigned his patent to his employer, then resigned, formed his own company and began to manufacture the invention. The employer sued the former employee and his corporation for infringement. The latter defended on the ground of invalidity, basing the defense on an expired patent as constituting prior art. The employer contended they were estopped by the former employee's assignment from attacking the validity. This court held that the doctrine of estoppel could not be applied to preclude the defense of an expired patent. Pointing out that there can be no monopoly of an invention after expiration of a patent, and that the employer thus enjoyed no monopoly, the Court refused to invoke estoppel to grant it a monopoly to which it was not entitled, saying (at pages 255-256):

> "* * * If a manufacturer or user could restrict himself, by express contract, or by any action which would give rise to an estoppel, from using the invention of an expired patent, he would deprive himself and the consum-

ing public of the advantage to be derived from his free use of the disclosures."

The analogy between the expired patent there involved and the disclosed secret here at issue is apt.

The Colorado Supreme Court appears to have relied on *Shellmar Products Co.* v. *Allen-Qualley Co.*, 87 F. 2d 104 (C. C. A. 7th, 1936), *cert. den.* 301 U. S. 695, to support its decision. That case involved a disclosure by Allen-Qualley to Shellmar of its secret process for making a candy wrapper and unauthorized communication of this secret by Shellmar to its patent attorneys, who made a patent search, discovered a prior patent and purchased it for Shellmar. An order having then been entered in one suit compelling Shellmar to assign its patent and enjoining it from using the process, Shellmar later sued to set aside the injunction on the ground that subsequent disclosure by third parties by publication of patents on the same process, prior in invention, eliminated the trade secret. The Court held that Shellmar was estopped by its breach of confidence from taking advantage of the subsequent public disclosure.

To the extent that the *Shellmar Products Co.* case holds that one who breaches the confidential disclosure to him of a trade secret is estopped to take advantage of a later public disclosure of the same invention in which he had no part, it seems in direct conflict with the decisions of this Court discussed above. Furthermore, its rule has been discussed and expressly rejected by the Court of Appeals for the Second Circuit first in *Picard* v. *United Aircraft Corp.*, 128 F. 2d 632 (C. C. A. 2d, 1942) and again in *Conmar Products Corporation* v. *Universal Slide Fastener Co.*, 172 F. 2d 150 (C. A. 2d, 1949), wherein that Court held that the obligation to respect a trade secret did not survive the issuance of a patent and the consequent publication even where the defendant was charged with wrongfully inducing the plaintiff's former employee to divulge the secret prior to publication.

The Colorado Supreme Court decision is therefore clearly erroneous in principle and in conflict with applicable decisions of this Court in enforcing against petitioners and against the public interest a restraint of trade based upon estoppel to establish that the claimed trade secrets were actually in the public domain by disclosure.

Assuming, *arguendo,* that estoppel can be applied to bar the defense of disclosure of trade secrets, the reasons the Colorado Court announced for holding petitioners estopped do not support an estoppel.

Hyman's part in the foreign patent applications should not estop petitioners. While a party undoubtedly could not take advantage of his own *tortious* disclosure as a publication, there is no contention or evidence that Hyman's part in the publication was tortious, or that the publication cannot be considered the act of respondent. The evidence of record is that the patent applications in question, both domestic and foreign, were filed by Velsicol's regular patent attorney in exactly the same fashion as all other patent applications of the company. Respondent's patent counsel, Lee J. Gary, testified that he consulted with Hyman and, after 1944, jointly with the then Director of Research, Colonel A. S. Behrman, as to patent matters. (R. 2, fols. 1781-3.) Gary testified that the chlordane applications had been prepared by him in the usual manner and had been sent to Hyman for execution and that Hyman had executed the applications and returned them for filing. (R. 2, fols. 1809-13.)

The filing of the United States applications in 1945 and the corresponding foreign applications in January or February, 1946 (R. 2, fol. 2086), was authorized by Hyman as an officer of respondent in the usual course of respondent's business and for the benefit of respondent. A failure to direct filing of the patent applications within the statutory period might have constituted an abandonment resulting in a loss of patent rights and might well have been a breach of duty.

At no time was any objection noted by respondent to the filing of applications on chlordane either domestic or foreign, nor has any claim been made at any time that the filing was improper or in breach of Hyman's duty to respondent. On the contrary, in claiming the benefit of the domestic and foreign applications, in compelling the assignment of the patents and applications and enjoying their fruits, respondent affirmed, ratified and adopted the actions of Hyman in directing their filing. Respondent cannot now disaffirm that the disclosures resulting from the filing of the British and other foreign applications, notably the Belgian applications which eventuated into patents as early as April and May, 1946 (R. 5, fol. 3578), were its act.

No better foundation for estoppel is the Colorado Supreme Court's finding that petitioners cannot rely upon respondent's publication of its secrets because they learned them from respondent in confidence and not from the published sources. In the first place, petitioner Hyman did not learn the secrets from respondent but was the inventor thereof. Moreover, the Court's reasoning erroneously makes the source of petitioners' knowledge the crucial fact rather than respondent's possession of trade secrets requiring protection. It announces the surprising principle that one who obtains information under a bond of secrecy is forever barred from its use although it is later disclosed to all the world, unless, at least, he refreshes his recollection from the published sources. Significantly, no authority is cited for this proposition; there is none. It offends common judgment. One who discloses his secrets publicly has forfeited his privacy and cannot by prior agreement inhibit a few from competing in an area of public knowledge, without being guilty of an unlawful restraint of trade. *Flanigan* v. *Ditto, Inc.*, 84 F. 2d 490 (C. C. A. 7th, 1936).

The Colorado Court's finding that petitioners' laboratory production of Chlordane prior to publication estops them from claiming benefit of the publication is groundless. Such early laboratory production might render them liable

for any damage caused thereby, but could hardly support damages based on profits from all production *after* publication, as here granted. Furthermore, this finding of the Court is based solely on the British publication in January 1947 and completely ignores petitioners' proffered proof of Belgian applications resulting in much earlier publication of the chlordane processes on May 31, 1946, prior to Hyman's rupture with Regenstein (R. 5, fol. 3578). Thus "secrets" published months before Hyman and his associates even contemplated their independent venture have been made by the Colorado Supreme Court in this case the basis for enforcing against petitioners a restraint of trade.

B. The foregoing conflict with federal public policy requires reversal of the judgment by this Court.

This Court has recently held that where interstate commerce is involved, any conflict between the law of the state and federal law must be resolved in favor of Federal law. See *Schwegmann Bros.* v. *Calvert Distillery Corp.*, ——— U. S. ———, decided May 21, 1951; *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U. S. 402 (1947); *Edward Katzinger Co.* v. *Chicago Metallic Manufacturing Co.*, 329 U. S. 394 (1947); *Radio Station WOW* v. *Johnson*, 326 U. S. 120 (1945); *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173 (1942). The judgment of the Supreme Court of Colorado in restraining petitioners from employing knowledge in the public domain, irrespective of whether such restraint is supported by a subsisting trade secret, effects unlawful restraint of trade. The judgment cannot be supported upon the facts because of the exclusion of evidence as to the existence of a trade secret at the time of breach. It cannot be supported upon a doctrine of estoppel because estoppel cannot be applied to enforce a restraint of competition as to a non-existent trade secret.

The basis of the jurisdiction of this Court on this ground is well-stated in *Sola Electric Co., Jefferson Electric Co., supra* at 177:

> "* * * Similarly this Court has declared that anyone sued upon a contract may set up as a defense that it is in violation of the Sherman Act. * * *
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> "Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements. * * *"

The Supreme Court of Colorado has concluded that petitioners are conspirators and has sought to punish them rather than to compensate respondent for any damage which respondent might establish by reason of a conspiracy —in itself an abuse of the equitable process. *Hecht Co.* v. *Bowles,* 321 U. S. 321, 329 (1944). In its desire to punish petitioners, the Court below has invaded the rights of the public and has deprived it of the healthful competition of petitioner with respondent.

This presents an important federal question of which this Court should take cognizance, lest by guise of trade secrets, inviolate by estoppel, a monopoly prohibited by the anti-trust laws may be judicially created and enforced.

II.

The Judgment of the Supreme Court of Colorado in Depriving Petitioners of their Constitutional Right to Engage in Their Regular Business on the Basis of a Finding Without Evidence to Support It that Petitioner Hyman was Bound by a Secrecy Agreement which Covered Chlordane and an Alternative Finding Erroneous as a Matter of Law that He Was Obligated to Secrecy by Confidential Relations Requires Review by this Court.

Every person has a constitutional right to engage freely in his business, profession or employment. Similarly, an inventor has a constitutionally guaranteed right to prac-

tice his own invention. These rights are fundamental. They underlie the Constitution of the United States and, furthermore, are specifically guaranteed by the Fourteenth Amendment. This Court made this clear in *Butchers' Union Slaughter House & Livestock Landing Co.* v. *Crescent City Livestock Landing & Slaughter House Co.*, 111 U. S. 746, 762 (1884) wherein, in refusing to enforce a monopoly in the slaughtering business allegedly granted by the State of Louisiana, it stated:

> "* * * The right to follow any of the common occupations of life is an inalienable right; it was formulated as such under the phrase 'pursuit of happiness' in the declaration of independence, which commenced with the fundamental proposition that 'all men are created equal; that they are endowed by their Creator with certain inalienable rights; that among these are life, liberty, and the pursuit of happiness.'' This right is a large ingredient in the civil liberty of the citizen. To deny it to all but a few favored individuals, by investing the latter with a monopoly, is to invade one of the fundamental privileges of the citizens, contrary not only to common right, but, as I think, to the express words of the constitution. * * *
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> "But if it does not abridge the privileges and immunities of a citizen of the United States to prohibit him from pursuing his chosen calling, and giving to others the exclusive right of pursuing it, it certainly does deprive him (to a certain extent) of his liberty for it takes from him the freedom of adopting and following the pursuit which he prefers, which, as already intimated, is a material part of the liberty of the citizen. * * *''

The right is reaffirmed in *Allgeyer* v. *State of Louisiana*, 165 U. S. 578, 589 (1897) wherein the Court said:

> "* * * The 'liberty' mentioned in that (the fourteenth) amendment means, not only the right of the citizen to be free from the mere physical restraint of his person, as by incarceration, but the term is deemed to embrace

> the right of the citizen to be free in the enjoyment of all his faculties; to be free to use them in all lawful ways; to live and work where he will; to earn his livelihood by any lawful calling; to pursue any livelihood or avocation; and for that purpose to enter into all contracts which may be proper, necessary, and essential to his carrying out to a successful conclusion the purposes above mentioned. * * *"

The Judgment of the Colorado Supreme Court in this case destroys a business exceeding $2,000,000.00 in gross volume per year in interstate commerce built up by the manufacture and sale by petitioner Julius Hyman of his own invention, an important insecticide, and gives respondent a monopoly in this field. (R. 5, p. 525.) It is invalid as destructive of a constitutional right unless there is basis in law and fact for a determination that petitioners aliened the right.

A. To the extent that the lower court judgment is based on an agreement by petitioner Julius Hyman not to disclose chlordane, it is without evidence to support it.

Plaintiff in this case, respondent herein, has sought to establish that Hyman aliened his rights by an agreement not to disclose inventions which was applicable to chlordane.

The position of all of petitioners stands or falls with the correctness of the findings as to an express agreement of Hyman, as inventor, for if he did not bind himself by agreement not to manufacture the invention, then his right to disclose and make it freely should free all those who assist him.

One who seeks to inhibit an inventor from engaging in the manufacture and sale of his own invention assumes a heavy burden in establishing that this right has been validly surrendered. *Mullins Mfg. Co.* v. *Booth,* 125 F. 2d 660 (C. C. A. 6th, 1942.) An employer who seeks to enforce against his employee an obligation of secrecy is required to establish a definite and certain contract requiring secrecy as to the specific subject matter at issue. Such

agreements are strictly construed against the employer. *Hildreth* v. *Duff*, 143 Fed. 139 (W.D. Pa., 1906); see *American Circular Loom Co.* v. *Wilson*, 198 Mass. 182 (1908).

In its complaint, respondent alleged that Hyman signed an agreement under paragraph 1 of which he agreed to keep secret "any and all inventions, improvements, discoveries, formulas or processes relating to *oils, paints, varnishes or any of the ingredients or products thereof* invented, discovered or learned by the undersigned during the term of his employment by the Company." (Italics ours.) (R. 1, fol. 13.) This agreement was alleged to have been signed by Hyman January 31, 1931, at the time of the formation of the corporation formed to exploit the two patents relating to by-products of petroleum refining and products resulting therefrom, owned by Hyman prior to the formation of the corporation and conveyed by him to the corporation when it was formed. (R. 1, fol. 14.)

This agreement was not produced at the trial. Hyman denied ever having executed it. His testimony and that of another witness, a member of the original Board of Directors of the company, was that Regenstein's attorney submitted to him such an agreement when the corporation was formed and he flatly declined to sign it. Respondent produced no attesting witness to the signature of this January 31, 1931 agreement and no other witness who saw the signing of the agreement by Hyman. Respondent's only testimony to establish the agreement was that Regenstein and his intimate representative Schneider had, some time after the formation of the corporation, seen an agreement which had Hyman's signature on it. No other witness testified to having seen or known of the existence of such an agreement in all of the fifteen and one half years which elapsed between the formation of the corporation and the time Hyman left it. It is submitted that respondent clearly did not meet in this case the burden of showing, by a preponderance of the evidence, that an agreement, by which Hyman is alleged

to have conveyed the sole property in his own invention to the corporation, was executed. *Dalzell* v. *Dueber Watch-Case Manufacturing Co.*, 149 U. S. 315 (1893.)

Neverthless, the District Court, after referring to the formation of the corporation and the assignment to it by Hyman of his two patents relating to the products of petroleum refining, found that:

> "* * * defendant Julius Hyman agreed to devote his time to said corporation as a chemist perfecting the ideas contained in said patent applications, (meaning the patents pertaining to the products of petroleum refining mentioned just previously in the decree and assigned by Hyman to the corporation) and to devote his time and efforts to develop new uses for *petroleum refining by-products* at a salary to be agreed upon from time to time as the condition of the company might warrant, and that all inventions and discoveries (growing out of research on the patents relating to petroleum refining) were to be kept secret and assigned to the plaintiff corporation." (Italics and parenthetical insert ours.)[1] (R. 2, fol. 3378)

But chlordane, which is the subject of this suit, is an insecticide which is not a "by-product" of "petroleum refining". Nor is chlordane an "oil, paint, varnish or any of the ingredients or products thereof," which is the subject covered by the alleged agreement of January 31, 1931. Furthermore, chlordane, invented by Hyman fourteen years after the alleged agreement of 1931, was clearly not within the scope of the activities of Velsicol or Hyman as contemplated by the parties at that time.

To construe an agreement relating either to "petroleum refining by-products" or "oil, paint, varnish or any of the ingredients or products thereof," to cover chlordane, an insecticide, which is neither a petroleum refining by-product nor "an oil, paint, varnish or any of the ingre-

[1] It is clear that the District Court did not regard Paragraph 2 of the alleged agreement, relating to the non-disclosure of secrets, as broadening the scope of Paragraph 1 under the circumstances of this case.

dients or products thereof," violates the established rule above stated that such agreements are to be strictly construed against the employer.

In *Hildreth* v. *Duff*, 143 Fed. 139 (W.D. Pa., 1906), where an employee entered into an agreement to give the employer, Hildreth, "the full benefit and enjoyment of inventions and improvements relating to machines or devices pertaining to said Hildreth's business," it was held by the court to relate to inventions and improvements relating to machines or devices as contemplated by the parties at the time the agreement was executed and not to a subsequent and different type of machine invented by the employee.

In *Hapgood* v. *Hewitt*, 119 U.S. 226 (1886), notwithstanding that an employee superintendent of the employer corporation agreed "to use his best efforts, and devote his knowledge and skill, in devising and making improvements in the plows manufactured by the corporation and in getting up and perfecting plows and other agricultural instruments adapted to its trade," and received adequate compensation, and even though his subsequent invention of a new plow was produced at the employer's expense, with the employer's material and with the aid of the employer's workmen, this Court held that the title to the employee's invention was not vested in the employer, the agreement containing no express provision to that effect.

In *Wright* v. *Vocalion Organ Co.*, 148 Fed. 209 (C. C. A. 1st, 1906), an employee entered into a contract with an employer corporation engaged in the manufacture of musical instruments, including organs, under which the employee agreed, in consideration of an increased salary, that a one-half interest in all improvements or inventions made by him during the course of his employment "in or relative to organs both keyed and automatic" should be assigned to the employer. The employee during his employment made and patented certain inventions which were applicable alike to organs and self-playing pianos. The court held

that under this agreement the inventions were within the contract only insofar as they related to organs and not as to pianos.

In *West Disinfecting Co.* v. *U. S. Paper Mills, Inc.*, 44 F. 2d 790 (M. D. Pa., 1929), the defendant had assigned to the plaintiff his invention of a machine for interfolding paper towels and "all improvements thereon or variations thereof." He subsequently invented a new machine for accomplishing the same purpose, similar in appearance, but radically different in operation. The plaintiff sued to compel an assignment of this invention. The court held that the new invention, being more than a mere improvement, was not covered by the assignment agreement.

Thus the law is clear that a secrecy or assignment agreement will be construed to comprehend only those inventions of the employee which come fairly, even strictly, within its express terms. There being no evidence that Hyman executed any agreement other than the one relating to "oils, paints, etc.", which does not fairly include chlordane, there is no evidence to support the Colorado Supreme Court's determination that Hyman was bound by an express agreement not to disclose chlordane.

Where it is claimed that the decision of the highest Court of a state denying a party an asserted federal right is without evidence to support it, this Court can and should take jurisdiction to determine whether there is evidence to support the findings of the state court. *United Gas Public Service Co.* v. *Texas*, 303 U. S. 123 (1938); *Southern Pacific Co.* v. *Schuyler*, 227 U. S. 601 (1913); *Creswill* v. *Grand Lodge, K. of P.*, 225 U. S. 246 (1912). When there is no evidence to support these findings, the state court decision, depriving the petitioner of a federal right, is of course invalid.

B. To the extent that the lower court judgment is based on the finding that Hyman's relations with respondent made his invention, chlordane, its property and gave rise to an implied obligation of secrecy, it is erroneous as a matter of law.

The Colorado Supreme Court, notwithstanding the express refusal of the Denver District Court to make such a finding (R. 2, fol. 3462), placed its decision alternatively on the ground that petitioners were obligated by confidential relations with respondent in such a way that they were bound to secrecy not to disclose chlordane. (R. 6, p. 61.) Actually, the Court's finding of an express agreement—that the "oil, paints, etc." agreement covered matter clearly not within its terms—amounts to no more than a finding of an implied obligation.

As on the express agreement issue, the position of all of petitioners on this question stands or falls with the correctness of the findings as to Hyman, as inventor, for if his relations with respondent did not impose an implied obligation of secrecy upon him, then his right to disclose and make it freely should free all those who assist him. On the other hand, as regards his obligations to Velsicol generally and relating to chlordane specifically, Hyman's situation is entirely different from that of the others. Nevertheless, the Colorado Supreme Court lumped him with the rest, saying of all petitioners indiscriminately (R. 6, p. 61):

> "* * * if they are not bound to secrecy by virtue of their employment agreements, the confidential and fiduciary relationship which they sustained imposed as binding an obligation of guarding plaintiff's trade secrets as would a signed employment agreement, which was definite and unmistakable in its terms and the subject matter thereof. * * *"

On the undisputed facts of this case, the Colorado Supreme Court has entirely misconceived the relation of Hyman to Velsicol, and in doing so has erroneously applied

to him a doctrine of implied obligation of secrecy arising out of a relation of confidence which has no proper application to Hyman's relations with Velsicol.

The doctrine is misapplied in two respects: (1) in treating Hyman as simply an executive employee of Velsicol, rather than a joint venturer, founder and owner of the corporation, and (2) in treating him as the recipient of a secret, rather than as its inventor.

Two cases cited by the Colorado Supreme Court announce the rule that where an employer communicates secret processes or formulas to an officer or trusted employee for use in connection with the latter's performances of his duties, the confidential position of the employee binds him to an obligation of secrecy even in the absence of a specific secrecy agreement. *Vulcan Detinning Co.* v. *American Can Co., et al.*, 67 Atl. 339 (Er. and Ap. N. J., 1907); *Stone et al.* v. *Goss et al.*, 55 Atl. 736 (Er. and Ap. N. J., 1903). Two obvious essentials of this doctrine are (1) employer-employee relationship and (2) disclosure *to* the employee. Neither essential is met as regards Hyman in this case.

(1) *Hyman was not simply an employee of Velsicol, and the Colorado Supreme Court erroneously measured his rights and obligations by principles applicable to employees.* The fundamental relation of Hyman and Regenstein was that of joint venturers. They agreed together to embark upon the exploitation of Hyman's 1931 inventions and Velsicol was simply the corporate agency created to carry out their venture. Hyman's relation to Velsicol was not simply and essentially that of an officer-employee, but that of a founder and proprietor. Hyman's act in leaving Chicago was not simply that of an employee quitting a job, but an act of dissolution of a venture. And in this proceeding, respondent is essentially the *alter ego* of Regenstein, and the quarrel that of two cousins.

The fact that Regenstein and Hyman employed the corporate form for their enterprise, that stock was issued and that they became officers and directors of the corporation

do not of necessity change its character from that of a joint venture, if that was its substance. This Court is entitled to view all the facts to determine that substance, and is not precluded by the corporate form. *Hathaway* v. *Porter Royalty Pool, Inc.*, 296 Mich. 90 (1941).

In interposing the corporation, Velsicol, as the effective power in this case, and in casting Hyman's relations to his and Regenstein's enterprise in terms of his obligation as an employee to the corporation, the Colorado Supreme Court made the agent and instrument—Velsicol—the master and the master—Hyman—the servant.

The effect of this translocation of parties was to impose upon Hyman the obligations and restrict him to the rights of an employee, whereas he was entitled to the vastly different rights and bound by the vastly different obligations of a joint venturer.

The difference in these rights and obligations which is critical here is that whereas an employee terminating his employment may not use his employer's secrets, upon the dissolution of a partnership or joint venture, each partner is ordinarily entitled to the free use of the firm's secrets. *Baldwin* v. *Von Micheroux*, 5 Misc. 386 (1893), aff'd. 83 Hun. 43. Thus Hyman should be entitled as freely to use the products of his labors in the venture as Regenstein. It is a gross miscarriage of justic to give Regenstein effective and complete control of all the secrets simply because he controlled the majority of the stock of Velsicol, especially in view of the watering of Hyman's interest in Velsicol almost to extinction.

(2) *Hyman, as the inventor of chlordane, was not as to it the recipient of a confidence, and the Colorado Supreme Court erroneously bound him by principles applicable to the recipient of a secret.* Hyman is the inventor of clordane. The cases draw a marked and logical distinction between inventors of trade secrets and other employees. See Callman, *The Law of Unfair Competition and Trade Marks* (1945) Section 55. The latter are bound by an implied

agreement not to disclose secrets communicated to them, as discussed above, whereas the former, in the absence of an express agreement to the contrary, have a property right in their discoveries which entitles them freely to disclose them. *United States* v. *Dubilier Condenser Corp.*, 289 U. S. 178 (1933); *Dalzell* v. *Dueber Watch-Case Mfg. Co.*, 149 U. S. 315 (1893); *Hapgood* v. *Hewitt*, 119 U. S. 226 (1886); *American Stay Co.* v. *Delaney*, 211 Mass. 229 (1912). The only exception is where the inventor is hired for the specific purpose of inventing and where the invention is within the specific field of invention for which he was hired. See *United States* v. *Dubilier Condenser Corp.*, *supra.*

Courts are reluctant to find from the terms of the employment an implied obligation on the part of an employee to give title to his inventions to his employer and to maintain secrecy as to them. The basis of this reluctance is stated in *United States* v. *Dubilier Condenser Corp., supra,* at page 16, where Mr. Justice Roberts said:

> "* * * The reluctance of courts to imply or infer an agreement by the employee to assign his patent is due to a recognition of the peculiar nature of the act of invention, which consists neither in finding out the laws of nature, nor in fruitful research as to the operation of natural laws, but in discovering how those laws may be utilized or applied for some beneficial purpose, by a process, a device, or a machine. * * *
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> "* * * Recognition of the nature of the act of invention also defines the limits of the so-called shop right, which, shortly stated, is that, where a servant, during his hours of employment, working with his master's materials and appliances, conceives and perfects an invention for which he obtains a patent, he must accord his master a nonexclusive right to practice the invention. * * * This is an application of equitable principles. Since the servant uses his master's time, facilities, and materials to attain a concrete result, the latter is in equity entitled to use that which embodies his own property and to duplicate it as often

> as he may find occasion to employ similar appliances in his business. But the employer in such a case has no equity to demand a conveyance of the invention, which is the original conception of the employee alone in which the employer had no part. This remains the property of him who conceived it, together with the right conferred by the patent, to exclude all others than the employer from the accruing benefits. These principles are settled as respects private employment."

In *American Stay Co. v. Delaney,* 211 Mass. 229 (1912), a skilled mechanic was employed to assist the President of a corporation with the latter's inventions, understanding that he would be under an obligation to keep secret anything disclosed to him. The Court refused to find that there was a corresponding implied obligation not to disclose his own invention, even though the background information on which he based his invention was derived from the performance of his duties as an employee. Similarly, a designer who assisted in developing processes for manufacture of toys from cardboard was held in *New Method Die and Cut-Out Co.* v. *Milton Bradley Co.,* 194 N. E. 80 (Mass. 1935) to be entitled to free use of the secret processes, even though they were developed during his employment and even though other employees contributed to the development of the secrets.

Even considered strictly as an employee, Hyman's circumstances were clearly not such as to give rise to an implied obligation to keep secret all inventions he might personally make. He was the executive head of Velsicol, not even directly concerned with research at the time of this invention, there being a Director of Research. Velsicol had a large manufacturing plant employing many workers as well as a large laboratory; Hyman's primary attention must have been devoted to management functions. There was no showing that at the time of the chlordane invention his duties as head of the company were understood to entail his personal exercise of his inventive powers in the development of any invention. Furthermore, the District Court did not find that he was. Its finding that

he agreed to "develop new uses" for petroleum refining by-products is not a finding he was bound to invent, for development of "new uses" does not imply invention.

The Colorado Supreme Court makes much of the expenditure by Velsicol of substantial sums of money in research in perfecting chlordane. It is abundantly clear that such expenditure did not give rise to an obligation of secrecy, but only entitled the employer to shop rights in any discovery. *Hapgood* v. *Hewitt,* 119 U. S. 226 (1886). Petitioners have never denied that Velsicol is entitled to such rights as to chlordane, worth many times the sums expended in research.

It was no more within the contemplation of the parties in 1931 when the venture was conceived that Hyman would assign 40 inventions, of which many were entirely unrelated to the products for the production of which the corporation was formed, than it was that Regenstein would loan over one-half million dollars to the business over a period of years. Clearly neither Velsicol nor Hyman could have required Regenstein in any legal proceeding at any given time to loan additional money to the corporation. Nor could either Velsicol or Hyman have legally prevented Regenstein from declining to loan additional funds to the corporation without attaching his own conditions such as, for example, an increase in his stock in the corporation (as a matter of fact, the loans were ultimately converted into stock). Conversely, it is difficult to see how either Velsicol or Regenstein could legally require Hyman to continue to deny himself the use of his own inventions if at any time he elected to decline to do so or to place conditions upon his denying himself the use of them. The loaning of money by Regenstein through his companies and the contribution of his own inventions by Hyman were simply a continuing course of conduct between the venturers until either elected to terminate the continuity of this practice. To fasten a legal liability upon Hyman to continue to deny himself his inventions against his will and without consideration deemed adequate by him was clearly a miscarriage of justice. Certainly these circumstances do

not constitute that clear and unequivocal obligation which the law requires before it will deny to an inventor the use of his own invention.

The Colorado Supreme Court thus committed clear error in enforcing against Hyman the obligations of an employee in receipt of confidential disclosures of trade secrets. His position as the inventor of chlordane demanded a positive showing of a clear agreement not to disclose it. His position as one of the venturers, a founder and co-owner of the corporation, was so special, so subject to varying responsibilities depending upon the agreement of the parties, and so different from that of the ordinary employee, as to demand that his rights and obligations be measured by the agreements of the parties, and not by conventional rules for fixing the rights and duties of employees. In failing to do this, and in applying inapposite doctrines to raise an implied obligation, the Colorado Supreme Court committed reversible error which, because it resulted in depriving Hyman of his constitutional right to practice his invention, requires review by this Court.

CONCLUSION.

The Supreme Court of Colorado, in the decision sought to be reviewed here, refused to hear evidence essential to the preservation of petitioners' federal right that trade secrets had been dedicated to the public domain by publication. It violates the federal policy of preserving free competition by restraining petitioners from competing with respondent in interstate commerce without justification in fact or law. In violation of his constitutional rights it denies an inventor, without justification, the use of his invention. It destroys a $2,000,000 a year business in interstate commerce in an insecticide important to agriculture which petitioners (the principal being its inventor) were

manufacturing and selling in interstate commerce and enforces a monopoly in such commerce in respondent corporation in violation of the Sherman Act.

It adds public injury to private wrong.

Therefore, this Honorable Court should review it.

And when it does, I respectfully submit it will reverse it.

CLAUDE PEPPER,
Attorney for Petitioners.

INDEX AND SUMMARY.

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Statement of the Case. This is a suit in equity by Velsicol Corporation, respondent, for relief from invasion by Julius Hyman & Company, Julius Hyman and others, petitioners, of Velsicol's property rights in certain chemical products and trade secrets, and for an accounting for damages and profits resulting from breach of fiduciary and contractual obligations. All issues of fact were found by the trial court in favor of plaintiff (respondent) and against defendants (petitioners) and a decree was entered accordingly. The judgment of the Colorado Supreme Court, affirming this decree, is what petitioners seek to review 2-15

Jurisdictional Requisites Lacking. There is not drawn in question in this case the validity of a statute of the United States or of any state, nor is there involved any title, right, privilege or immunity set up or claimed under the Constitution, treaties or statutes of the United States. The decision of the Colorado Supreme Court rests on non-federal grounds. The conditions for review by certiorari of a decision of a court of last resort of a state prescribed by Section 1257 (3) of Title 28, U.S. Code, are absent 16-25

Case Is Correctly Decided. The defendants (petitioners) stood in confidential relations to plaintiff (respondent) with respect to chlordane and its related secret formulas, processes and products, and

equity will make certain that defendants shall not fraudulently abuse the trust plaintiff reposed in them. This case is governed by equitable principles applicable to any wrongful use of confidential information or wrongful appropriation of property in breach of trust. All questions presented by the petition here have been concluded by the decisions in *Velsicol Corporation* v. *Julius Hyman,* 405 Ill. 352, c. d. 339 U. S. 966, and *Julius Hyman* v. *Velsicol Corporation,* 342 Ill. App. 489, a. d. 343 Ill. App. ii. The decision of the Colorado Supreme Court, here sought to be reviewed, is in harmony with every decision of every federal and state court on similar facts, and would be affirmed on the merits if the merits were before this Court for review.....26-40

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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1951.

No. 340

JULIUS HYMAN & COMPANY,
a corporation, et al.,
Petitioners,

vs.

VELSICOL CORPORATION,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

To the Honorable the Chief Justice of the United States and the Justices of the Supreme Court of the United States:

Velsicol Corporation, plaintiff below and respondent here, presents this answer to the petition of Julius Hyman & Company, a corporation, Julius Hyman, individually and as president and director of Julius Hyman & Company, and others, defendants below, for review by writ of certiorari of the judgment of the Supreme Court of the State of Colorado affirming a judgment of the District Court in and for the City and County of Denver.

The case presented to this Honorable Court by the petition is not the case presented to the Colorado courts. The attempt of petitioners is to frame new issues to give this Court jurisdiction to review the judgment of the Colorado Supreme Court.

STATEMENT OF THE CASE.

This Court is entitled to an honest and intelligible statement of the case presented for review. Petitioners' statement is incomplete and misleading. It scarcely identifies the case, much less gives this Court a true summary of the record.

Nature of the Suit.

This suit is for a decree awarding plaintiff, respondent here, an injunction to restrain Julius Hyman and the other individual defendants, petitioners here, from disclosing to their creature, Julius Hyman & Company, secret formulas, processes and products discovered by or made known to them during and in the course of their employment with plaintiff in confidential capacities and under contracts to keep plaintiff's secrets, and to restrain the defendants from using the formulas, processes and products belonging to plaintiff, and particularly the formulas and processes relating to the insecticide "Velsicol 1068", now commonly called "chlordane", and other insecticides, and producing and marketing said insecticides in competition with plaintiff, and for a judgment for damages suffered by plaintiff by reason of the breach of the contractual and fiduciary relations of the individual defendants with plaintiff and by reason of the unlawful and inequitable acts of the corporate defendant as the creature and instrumentality of the individual

defendants in their conspiracy to injure plaintiff, and for judgment for the gains and profits of the wrongful undertakings and activities of the defendants, received by defendants, or any of them, and appropriated to their own use and benefit.

The Pleadings.

The complaint filed April 11, 1947, alleges facts showing the relations of the parties, the position of Hyman as the general manager of plaintiff's business and the director of its research from the date of plaintiff's organization in January, 1931, to the date of his leaving plaintiff in September, 1946, the position of the other individual defendants as confidential employees of plaintiff at various periods prior to January 1, 1947, the duties and obligations of the individual defendants by reason of their contractual and fiduciary relations with plaintiff to protect plaintiff in its rights and interests in all discoveries and inventions made by them, or any of them, during and in the course of their employment, the confederation and activities of the individual defendants in enticing technical and supervisory employees of plaintiff, who had knowledge of plaintiff's newly discovered insecticides and the know-how of producing them, to join in a conspiracy of wrongful competition with plaintiff, the organization of Julius Hyman & Company and the procuring of facilities at Rocky Mountain Arsenal, Colorado, to produce plaintiff's insecticides, the conspiracy of the defendants to appropriate plaintiff's secret formulas, processes and products to their use and benefit, the pirating of plaintiff's registered names of its insecticides and plaintiff's reports of field tests, and the production and marketing of plaintiff's insecticides by defendants, and the fact that plaintiff has suffered and

will continue to suffer damages by reason of the unlawful interference and unfair competition unless defendants, and each of them, were restrained. Specific and general relief in equity is prayed. (R. I, 1-43*.) This complaint was supplemented and the prayer was amended. R. V, 6-15, 455.

The answer of Julius Hyman filed July 31, 1947, admits the facts showing the relations of the parties, the course of conduct of Hyman as executive vice president, general manager and director of research of plaintiff, and his course of conduct as the president and general manager of Julius Hyman & Company, and the course of conduct of other individual defendants as employees of plaintiff and later as employees of Julius Hyman & Company, and the activities of Julius Hyman & Company in the production and marketing of plaintiff's insecticides. He denies that plaintiff has the exclusive right to produce and market chlordane, and avers that he and his assignees and licensees have the right to produce and market the insecticides covered by applications for United States Letters Patent Serial Nos. 607078 and 643759, which include chlordane, subject to plaintiff's shopright to produce and market said insecticides, and he denies that defendants are under the duties and obligations to plaintiff alleged in the complaint. (R. I, 45-56.) He avers that plaintiff is estopped to prosecute this complaint by reason of an alleged agreement made by Joseph Regenstein, president of plaintiff, in October, 1943, to make some arrangement to increase Hyman's percentage of ownership in plaintiff and Regenstein's alleged failure to keep his promise. (R. I, 56--61.) He avers that with

*The record is in six volumes, each separately paged. We shall refer to the volumes with a Roman numeral and to the cited pages with Arabic numerals.

the information which plaintiff had made public any competent chemist could determine the formulas, processes and products in dispute and any competent engineer could design and construct the necessary plant for manufacture of said products, and that neither the products nor the processes are secret. (R. I, 61.) He avers that plaintiff does not come into court with clean hands because of certain recapitalization proceedings carried out in December, 1946, which resulted in a reduction in Hyman's *pro rata* position in plaintiff. (R. I, 61-63.) Other defendants adopted Hyman's answer in pertinent part. R. I, 63-65.

It will be noted that the answers do not draw in question the validity of a treaty, statute of the United States or statute of Illinois or Colorado, and that the answers do not set up or claim any title, right, privilege or immunity under the Constitution, treaties or statutes of the United States. There is no reference in the answers to any statute of the United States nor to the Constitution of the United States.

This Court will also note that nothing is said in the answers with respect to applications for letters patent filed in Great Britain and in other foreign countries corresponding to the United States applications, and there is no claim that defendants, or any of them, learned any of plaintiff's secrets by disclosures made by these applications for foreign patents nor is anything said about the United States Department of Agriculture publications respecting the insecticides here in issue. All of this defense resting on alleged disclosures of plaintiff's trade secrets is an afterthought presented by subsequent motions.

January 16, 1948, more than six months after the answers were filed and more than a year after the individual defendants had left the employ of plaintiff and had organized Julius Hyman & Company and started operations in Colorado, defendants presented by motion for summary judgment the defense that plaintiffs trade secrets were in the public domain by reason of the laying open to public inspection in Great Britain on January 27, 1947, the Hyman applications for patents covering chlordane, and a release issued by the United States Department of Agriculture under date of February 26, 1947, relating to chlordane. (R. I, 82-93.) This motion was fully answered by plaintiff February 20, 1948. The affidavits supporting the answer show that the laying open to public inspection of an application in the British Patent Office does not constitute a printed publication of the invention and that although the information contained in the British application was adequate to enable any person skilled in the art of chemistry to make the compounds and to use the formulas and processes described in the applications, such applications do not necessarily include technique and know-how adequate to enable any person skilled in the art of chemistry to carry out the commercial production of the products described in said applications without gaining and acquiring additional technique and know-how and without having first had the benefit of knowledge resulting from the expenditure of large sums of money and considerable time required to develop such technique and know-how for the commercial production of said products. They also show that whatever disclosures were made by these foreign applications covering chlordane were made by Julius Hyman as the applicant, and that whatever disclosures were made by the Department of Agriculture publications

the source was Julius Hyman & Company. They further show that plaintiff was not a party to any alleged disclosures, and that no defendant obtained any of the knowledge which he was employing in producing and marketing plaintiff's insecticides from the disclosures made in connection with the prosecution of these foreign applications or from the Goverment publications. (R. I, 93-126.) The motion for summary judgment was denied after full hearing on March 3, 1948. R. I, 127.

Defendants moved on March 22, 1949, about two years after the complaint was filed and one year after the case was tried, for an order dissolving the injunction ordered May 28, 1948, on the ground that plaintiff's secrets had been disclosed by the granting of patents in Belgium and other foreign countries covering plaintiff's insecticides here in issue. (R. V, 1-6.) Plaintiff answered the motion April 5, 1949, showing again that the applications in foreign countries covering chlordane had been filed by Hyman, that plaintiff was not a party to the filing and prosecution of the foreign applications covering chlordane, and that no defendant learned anything new by these proceedings. (R. V, 16-22.) It appeared from the Peterson affidavit attached to the answer, which is not challenged, that the issuance, under date of May 31, 1946, by the Belgium Government to Julius Hyman of the patent covering chlordane consisted of the step of making typewritten copies of said patents available for public inspection in the Patent Office at Brussels, Belgium, that the Belgian patents are not printed and that the Patent Office does not make any distribution to the public of printed copies of the patents, and makes distribution of typewritten or photostatic copies of patents only to those who make specific requests for such

copies. There was no showing that any such request was ever made. (R. V, 21.) There was a full hearing on this motion and it was denied. R. V, 23.

The Decisions Below.

The issues of the ownership of the formulas, processes and products described in the complaint, of the appropriation of these formulas, processes and products to the use and benefit of defendants, and the liability of defendants to account to plaintiff, were heard by the chancellor and he found the facts as alleged in the complaint. (R. II, 547-553.) The District Court entered its decree May 28, 1948, finding the issues for the plaintiff and against the defendants, who are petitioners here, ordering the issuance of an injunction as prayed and requiring defendants to account. (R. II, 569-571.)* A special master in chancery heard evidence on the accounting issues and reported his conclusions. (R. V, 435-454.) On May 11, 1950, the Court entered its decree pursuant to the recommendation of the master, as modified, awarding plaintiff a joint and several judgment for damages against all defendants in the amount of $100,000 and a judgment against Julius Hyman & Company in the amount of $1,559,053.30 on account of gains and profits received by it from the production and sale of chlordane for the period ending March 31, 1949, and appropriated to its use and benefit. (R. V, 496-499.) This decree was reviewed by the Supreme Court of Colorado and it

*It is significant that the Superior Court of Cook County, Illinois, independently and almost concurrently reached the same conclusion as to the ownership of the formulas, processes and products in a suit by Velsicol Corporation against Julius Hyman to compel the assignment of patent applications relating to chlordane and for injunction. R. V, 10-12.

entered its judgment of affirmance of the decree, with some modifications on the accounting issues, on June 25, 1951. (R. VI, 88-89.) The opinion of the Supreme Court of Colorado is printed at R. VI, 19-88, and is reported at 233 Pac. 2d 977.

The Facts.

Julius Hyman received extensive college training in chemistry at the University of Chicago and the University of Leipzig. The Regensteins paid for it. (R. II, 174.) He completed his college work in 1924 and was variously employed during the next six years. His last employment prior to the organization of plaintiff was as a research chemist with Pure Oil Company. (R. II, 175.) A few days after he left that employment on October 31, 1930, he filed two applications for United States letters patent relating to the use of petroleum refining by-products. (R. II, 176-178.) He sought financial aid of Joseph Regenstein, the principal stockholder of Arvey Corporation and Transo Envelope Company, in the establishment of a chemical research laboratory. (R. II, 132-135, 178-182, 267-275.) Following discussions in November and December, 1930, Velsicol Corporation was organized under the laws of Illinois January 16, 1931, to discover, prove, develop, produce and market chemicals of all kinds. (R. I, 4-5; R. IV, 17.) Velsicol now has and always had three stockholders,—Julius Hyman, Arvey Corporation and Transo Envelope Company. (R. I, 26, 52; R. II, 130.) Hyman was the only person financially interested in plaintiff who had any knowledge of chemistry and who knew the value and potentialities of the discoveries made in Velsicol's laboratory. (R. II, 172, 268.) He was Velsicol's executive vice president, general manager and di-

rector of research from its organization in January, 1931, until he left in September, 1946. R. II, 146, 188, 284; R. IV, 6-12.

All of plaintiff's employees, including Hyman, were under obligation by reason of express agreements to keep plaintiff's laboratory and manufacturing secrets for its exclusive benefit and to assign to plaintiff any inventions made during and in the course of their employment and any patent applications filed with respect thereto. (R. II, 146, 185, 189, 281; R. III, 3.) Hyman denied that he had executed such an agreement, but it was settled in the Illinois suit brought to compel Hyman to assign to plaintiff the patent applications relating to "Velsicol 1068", now called "chlordane", that he had executed and delivered such an agreement on January 31, 1931, (R. V, 10-12, 457-473.) and this decision concludes this question. During the first thirteen years of plaintiff's existence all applications for letters patent filed by its employees, including thirty-seven filed by Hyman, were assigned to plaintiff in due course and without discussion or condition. (R. II, 423, 426.) These applications covered a wide field, including six insecticides. Many of them never matured into patents. (R. I, 33-34, 54.) During all of this period there was never a suggestion that Hyman was not under obligation to give plaintiff full protection in all discoveries made by any employee of plaintiff, including Hyman, during and in the course of the employment. (R. II, 341, 423.) The first time Hyman suggested that he did not think he should continue to assign his inventions without some special consideration was in a conversation with Regenstein about the first of October, 1943, (R. II, 332, 423,) but he thereafter assigned three other applications, as he was required to do by his

express agreement,—one as co-inventor with Peters covering a method for production of alphanapthoquinones, and two as sole inventor covering insecticides. (R. I, 34; R. II, 425-426.) Hyman was given additional compensation as the business grew. His "salary" was increased from $18,200 a year in 1943 to $31,200 a year in 1945, and he drew about $8,000 a year as "expenses". R. II, 428.

The business of plaintiff, Hyman's relation to plaintiff's business, the method of conducting the business, the procedure followed by plaintiff's chemists and other laboratory technicians in conducting research and experimental work for plaintiff, the dependence of the success of plaintiff on the results of research, and the obligation to it of plaintiff's employees, including the individual defendants here, and their relations to plaintiff's research and manufacturing operations are set forth in detail by Hyman in verified statements which he filed with the Stabilization Unit of the Treasury Department of the United States during the period plaintiff's new insecticides were discovered, tested and proven. Pl. Ex. WW, R. IV, 8-12; Pl. Ex. VV, R. IV, 6-8; Pl. Ex. YY, R. IV, 12.

In the summer of 1944, Hyman, as operating head of plaintiff, assigned to Dr. Simon Herzfeld, a research chemist employed in plaintiff's laboratory, a project relating to cyclopentadiene reactions. (R. II, 192, 403-405.) Dr. Herzfeld used his own skill and ingenuity in carrying out the experiments and in the course of his work he produced a composition of matter not previously known. (R. II, 192, 353.) Further work was done in association with defendant Rex Lidov, the assistant director of research, and Henry Bluestone, another research chemist. This new product was known as "237", its laboratory

number. (R. II, 192, 342.) Herzfeld, Lidov and Bluestone filed patent applications covering these discoveries and the applications were duly assigned to plaintiff. (R. I, 13, 47; R. II, 195, 345.) In due course the assignments and conformed copies of the filed applications were transmitted to plaintiff to the attention of Hyman by plaintiff's patent attorney, as had been the regular practice for more than fourteen years. R. II, 341, 346.

The testing of "237" showed that it was an effective insecticide but that it was too volatile for practical purposes, and Hyman, as was his duty, directed further research in plaintiff's laboratory for the purpose of stabilizing the product and making it more effective. The composition of matter "237" was chlorinated and its toxicity and stability greatly increased. The empirical formula of "237" is $C_{10}H_6Cl_6$. The formula of the chlorinated product is $C_{10}H_6Cl_8$, and that product became known as "1068", which is a combination of the subnumerals of the formula. (R. II, 193.) The product "237" is an essential component of the product "1068". Without the discovery of "237" there would have been no "1068". (R. II, 206, 222, 249; R. III, 119, 155.) Hyman did none of the laboratory work in relation to these insecticides. All of the research and experimental work was done by plaintiff's laboratory employees at plaintiff's expense at Hyman's direction. All results were reported to Hyman. R. II, 192, 405, 430.

Hyman filed an application for United States Letters Patent, July 25, 1945, Serial No. 607078, in his name as the sole inventor, covering this new composition of matter "1068", discovered and proven in plaintiff's laboratory, and a second application with broadened claims, January 26, 1946, Serial No. 643759. (R. II, 195-196, 345-

346.) These Hyman applications covering the new insecticide, now commonly called "chlordane", which is the subject matter of this suit, make specific reference to the Herzfeld-Lidov-Bluestone applications covering "237" by serial numbers, filing dates and the names of the inventors. (R. II, 348.) The regular form of assignment was sent to Hyman by Mr. Lee J. Gary, plaintiff's patent attorney, when he sent the first of the "1068" applications to Hyman for execution, as had been his practice for the fifteen years of plaintiff's existence. (R. II, 343, 426.) Hyman returned the executed application without the assignment. This was the first time Hyman had failed to execute an assignment to plaintiff on the execution of the application. (R. II, 341, 408.) Hyman, who had previously given Mr. Gary all instructions respecting inventions made by him and other employees of plaintiff in the regular course of its business, instructed Mr. Gary to file the two applications without the assignments, and this was done. (R. II, 343, 347.) Mr. Regenstein, the president of plaintiff, later learned that Hyman had not assigned to plaintiff the "1068" applications and in June, 1946, demanded that the assignments be made. (R. II, 286, 334, 427.) In August, 1946, Regenstein consulted Gary respecting the circumstances of the filing of the "1068" applications without Hyman's assignments. This was the first time in plaintiff's fifteen years of existence that Regenstein talked with Gary about the procedure of filing patent applications and obtaining the assignments. (R. II, 348, 543.) Discussions continued for about six weeks between the parties and their attorneys, Hyman persisting in his position, which was in direct violation of his agreement and his fiduciary relations with plaintiff, and finally, on September 13, 1946, Regenstein, as president of plaintiff, accepted Hyman's proffered resignation

as executive vice president and general manager of plaintiff. R. II, 334, 413, 429.

Prior to the time Regenstein accepted Hyman's resignation September 13, 1946, Hyman had called a meeting of all the research chemists of plaintiff to meet in his office in the afternoon of that day. (R. II, 429.) This meeting was held and Hyman made a speech to plaintiff's chemists which was designed to and did cause dissention and disloyalty. (R. III, 115-117, 148-150; R. V, 135.) Thereupon Hyman began an organized campaign of sabotaging plaintiff's operations and of soliciting plaintiff's employees to join him in setting up an operation in competition with plaintiff. (R. II, 213, 237, 376, 379; R. III, 7, 10, 32, 41, 48, 58, 65, 68, 88, 90, 151.) There was a general exodus of plaintiff's technical and supervisory employees in the fall of 1946 and the hegira to Rocky Mountain Arsenal began. (R. II, 149, 213, 380, 470; R. V, 124.) The individual defendants, as they left plaintiff, were promptly put on the payroll of Julius Hyman & Company, which had been organized in November, notwithstanding it had no plant or laboratory in which to employ them. (R. II, 205.) These defendants had been directly connected with research and development work in relation to plaintiff's insecticides "237" and "1068" and with the production of these insecticides. (R. II, 194, 200, 210, 222, 226, 249, 260, 470; R. III, 67, 81, 128, 155.) Conclusive proof that they carried to Julius Hyman the necessary technical knowledge and experience to efficiently produce these insecticides is the fact that this competitor had its plant in operation within six weeks after it got possession (R. II, 206, 223, 257) and that it turned out 74,824 pounds of finished chlordane during the first month of operation without any preliminary research or experimental work.

(R. II, 472.) Julius Hyman & Company produced no evidence that it had any knowledge of the "237" or "1068" (chlordane) formulas or of the know-how of producing these insecticides except that which it gained surreptitiously and unlawfully from the individual defendants who joined in a conspiracy to destroy plaintiff as a competitor and to steal its trade secrets.

Julius Hyman & Company called its product "Octa-Klor" but its announcement pirated plaintiff's trade-mark "1068" by setting in its advertising matter the subnumerals of the empirical formula in bold display type and the letters in inconspicuous type. It also pirated plaintiff's field test reports with respect to the killing effect of these new insecticides by fraudulently incorporating them in a descriptive booklet. Hyman admitted this piracy. (R. II, 207-209.) So did McCauley. (R. II, 482, 485.) The first announcement of Julius Hyman & Company, made in December, 1946, says in part: (R. II, 208; R. IV, 14)

> "The inclosed booklet describes the chlorinated hydrocarbon insect toxicant $C_{10}H_6Cl_8$. This compound is the discovery of Dr. Julius Hyman, formerly Executive Vice-President of Velsicol Corporation, and now President of Julius Hyman & Company. $C_{10}H_6Cl_8$ is manufactured and marketed under the trade name Octa-Klor in the company's plant in Denver, Colorado.
>
> "Julius Hyman & Company is composed of a group of scientists, engineers, technicians, and other key personnel who have worked together many years, and who possess the knowledge and competence required to produce $C_{10}H_6Cl_8$, and the understanding needed to serve the insecticide industry."

This circular was distributed to the trade nearly a month before Julius Hyman & Company had a plant and three months before it had produced any chlordane. R. II, 208.

JURISDICTIONAL REQUISITES LACKING.

No question is presented by the record in this case which this Court will review. The validity of a treaty, statute of the United States, or statute of any state is not drawn in question in this case, nor is there involved any title, right, privilege or immunity set up or claimed under the Constitution, treaties or statutes of the United States. The conditions for review by certiorari of a decision of a court of last resort of a state prescribed by Section 1257(3) of Title 28, United States Code, are absent.

The case here is a suit in equity by Velsicol Corporation, respondent, for relief from invasion by Julius Hyman & Company, Julius Hyman and others, petitioners, of Velsicol's property rights in certain trade secrets. The issues in the case at bar of the relations of Velsicol and Hyman, and of the rights of Velsicol in the insecticides here in issue, and of the breach of contractual and fiduciary relations by Hyman were also present in *Velsicol Corporation* v. *Julius Hyman*, 405 Ill. 352. The complaint in the Illinois case was filed in the Superior Court of Cook County, October 15, 1946, nearly a month before Julius Hyman & Company was organized in Delaware. All of the issues in the case at bar could have been settled in the Illinois case if Velsicol could have got jurisdiction of Julius Hyman & Company and the individual defendants other than Julius Hyman. By the decree in the Illinois case it was determined that Velsicol was the owner of the compound, then called "Velsicol 1068" and now called "chlordane", and that Hyman was under contractual and fiduciary relations to protect Velsicol in its property rights in chlordane and to keep Velsicol's trade secrets with respect thereto for the exclusive use of Velsi-

col. It ordered Hyman to assign to Velsicol the applications for United States letters patent covering chlordane and all applications for letters patent filed in foreign countries corresponding to the United States applications and all patents which had issued or which did issue on any of said applications. It ordered that an injunction issue restraining Hyman and his assignees and associates from using any of the formulas, processes and products covered by said patent applications and from disclosing said formulas, processes and products to anyone other than plaintiff and from permitting the use of said formulas, processes and products by anyone other than plaintiff, and from using or revealing any methods and technique of manufacture discovered by or made known to him while he was in the employ of plaintiff or which he learned from any other person now or formerly in the employ of plaintiff. (R. V, 10-11.) This decree of the Superior Court was in all respects affirmed by the Supreme Court of Illinois. 405 Ill. 352.

A petition to review this decree of the Supreme Court of Illinois was filed in this Court. (No. 767, October Term, 1949.) Among the questions presented by that petition were "Whether, under color of the federal patent laws, a state court may insulate a corporation against competition from a former employee in the manufacture and sale of an unpatentable product the process for which has been made public", and "Whether a state court may deprive a man of his right freely to engage in his profession and thereby, contrary to the public interest, insulate a corporation from competition in the manufacture and sale of any of its formulas, processes, methods or products regardless of whether they have been either disclosed to the public or patented." Among the

reasons for granting the writ stated in that petition was "The Court below deprived Petitioner of the constitutional right to engage freely in his profession. It did so by enjoining him from using or disclosing the subject matter of the patent applications in question or any other processes made known to him while in the employ of Respondent with no regard as to whether any of the processes were a matter of public knowledge or patented." (Pet. pp. 7-9.) These questions presented in the petition in the Illinois case were substantially identical with the questions presented in the petition in the case at bar. This Court denied certiorari. (339 U.S. 966.) This precedent should control in the present case.

The decision in the Illinois case conclusively determined that Velsicol was the owner of chlordane, that Hyman was under contractual and fiduciary obligations to assign to Velsicol all patent applications relating to chlordane, that Hyman held said patent applications and trade secrets in trust for Velsicol, and that Velsicol was entitled to a decree in equity requiring Hyman to assign all rights in chlordane to Velsicol and restraining Hyman and his licensees and associates from using any of the secret formulas and processes relating to chlordane. The decree in the Illinois case has been executed. It is *res adjudicata* against Hyman and his privy, Julius Hyman & Company, as to all questions in the case at bar which are here in issue. It is a ruling precedent against the other defendants. The questions cannot be relitigated. *Magnolia Petroleum Co.* v. *Hunt,* 320 U.S. 430, 438-439; *Hart Steel Co.* v. *Railroad Supply Co.,* 244 U.S. 294, 298; *Craddock* v. *Palmer,* 91 Colo. 79, 81; *Harmon* v. *Auditor,* 123 Ill. 122, 133.

The case at bar is governed by equitable principles applicable to any wrongful use of confidential information

or wrongful appropriation of property in breach of trust. It is not a case which sets up a right under the patent laws. *Becher* v. *Contoure Laboratories,* 279 U.S. 388, 391; *New Jersey Zinc Co.* v. *Singmaster,* 4 F. Supp. 967, 974; *Irving Iron Works* v. *Kerlow Steel Flooring Co.,* 96 N.J. Eq. 702; *Fuller & Johnson Mfg. Co.* v. *Bartlett,* 68 Wis. 73.

This Court described the situation at bar when it said in *Murdock* v. *City of Memphis,* 20 Wall. 590, 638:

> "The claim of right here set up is one to be determined by the general principles of equity jurisprudence, and is unaffected by anything found in the Constitution, laws, or treaties of the United States. Whether decided well or otherwise by the State Court, we have no authority to inquire."

Defendants did not by their answers to the complaint present any defense under the Constitution or statutes of the United States. The opinion of the Supreme Court of Colorado shows clearly that no federal question was presented for decision. It is settled law that this Court will not review a judgment of a state court except where the record shows affirmatively that a federal question was raised by the pleadings or on the trial and was presented to the state court for decision and was actually decided or that the judgment as rendered could not have been given without deciding it. (*Southwestern Bell Telephone Co.* v. *Oklahoma,* 303 U.S. 206, 212; *Honeyman* v. *Hanan,* 300 U.S. 14, 18; *Lynch* v. *New York,* 293 U.S. 52, 54; *Utley* v. *St. Peterburg,* 292 U.S. 106, 111; *Waters-Pierce Oil Co.* v. *Texas,* 212 U.S. 86, 97; *Hulbert* v. *Chicago,* 202 U.S. 275, 279; *Jacobi* v. *Alabama,* 187 U.S. 133, 135; *Allen* v. *Southern Pacific R. Co.,* 173 U.S. 479, 489; *California Powder Works* v. *Davis,* 151 U.S. 389, 393; *New Orleans Waterworks Co.* v. *Louisiana Sugar Refining*

Co., 125 U.S. 18, 29; *Klinger* v. *Missouri*, 13 Wall. 257, 263.) The pleadings, the finding of the trial court, and the opinion of the reviewing court may be examined to see whether a federal question was presented and decided, and the absence of reference to a federal question is strong evidence that the decision of the state court rests on non-federal grounds. *Live Oak, etc. Assn.* v. *Railroad Commission*, 269 U.S. 354, 357; *Walter A. Wood, etc. Co.* v. *Skinner*, 139 U.S. 293, 295; *East Tennessee V. & G. Ry. Co.* v. *Frazier*, 139 U.S. 288, 291; *Felix* v. *Scharnweber*, 125 U.S. 54, 58.

Not one of the cases cited in the petition (p. 9) to support the jurisdiction of this Court has the slightest relation to the situation at bar. All are clearly distinguishable on the records. In the cases coming up from state courts a defense under a federal statute was specifically claimed and denied. No such defense was set up by the pleadings in this case. *Southern Pacific Co.* v. *Schuyler*, 227 U.S. 601, which is one of the cases cited in the petition which involved a review of a decision of a state court, held that this Court had no jurisdiction to review because there was a non-federal ground which would sustain the decision of the state court.

The first ground stated in support of this Court's jurisdiction rests on a false premise. The Colorado Court did not refuse "on the ground of estoppel to allow petitioners [defendants] to present evidence to show no trade secret existed because the same had been eliminated by publication". (Pet. p. 9.) Defendants were granted two full hearings in the District Court on the question of the alleged disclosures of plaintiff's trade secrets by the proceedings in foreign countries following the filing by Hyman in said countries of applications for patents

covering chlordane and of the alleged disclosures made by the United States Department of Agriculture releases. (R. I, 82-127; R. V, 2-6, 16-23.) The exhibits (D. Ex. 34, R. I. 102; D. Ex. 35, R. I, 86; D. Ex. 36, R. I, 87; and D. Ex. 40, R. I, 91) which were offered and excluded on the trial (R. II, 511) are in the record and were considered by the District Court in ruling on defendants' motion for summary judgment (R. I, 82, 127) and defendants' motion to vacate the decree (R. V, 3, 23) and by the Supreme Court in ruling that they did not constitute a defense in whole or in part to plaintiff's case. (R. VI, 51-55.) The Colorado courts considered all of the evidence offered by defendants in support of their contention that plaintiff had no trade secrets to protect, and ruled that the defense was without merit.

The Colorado District Court properly excluded the proffered exhibits. Exhibit 34 (R. I, 102) is merely an excerpt from the British Patents and Designs Act and in itself proves nothing with respect to whether Velsicol's trade secrets were disclosed by the laying open to public inspection of the Hyman patent applications covering chlordane. Exhibit 35 (R. I, 86) is merely a certificate of a British officer certifying that an application corresponding to the Herzfeld-Lidov-Bluestone applications covering "237" was filed in the British Patent Office February 25, 1946, and was placed open to public inspection September 6, 1946. Exhibit 36 (R. I, 87) is a like certificate of the same officer certifying that the Hyman application covering "Velsicol 1068", now commonly called "chlordane", was filed by Julius Hyman March 19, 1946, and was placed open to public inspection January 27, 1947. These certificates do not prove or tend to prove that any member of the public ever in-

spected these applications. There was no offer to prove that any member of the public learned any chlordane secret. No defendant claims that he learned any of Velsicol's secrets from these applications or that copies of the applications were ever made available to Julius Hyman & Company or to any member of the public. Exhibit 40 (R. I, 91) is merely a release of the United States Department of Agriculture which gives a definition of "Velsicol 1068" and assigns to it the name "chlordane". It discloses the long chemical name, the empirical formula and the structural formula of the insecticide, but it does not disclose the composition of the chemical compound nor the method of making it. No chemist of character would contend that this release constituted a disclosure of the secrets of chlordane. The Peterson affidavit (R. I, 100-105) shows clearly that the mere laying open to public inspection of a patent application by the British Patent Office is no proof that any member of the public made the inspection and learned the matters disclosed by the application. The affidavits of Gary, Wilks, Kleiman, Hinken, Camp and Jameson, (R. I, 106-126) show that Velsicol made no voluntary disclosures of any of the matters covered by the Hyman applications relating to chlordane. Nothing done by Velsicol disclosed any of the secrets of chlordane.

Defendants did not even offer to prove by any witness that the chlordane secrets were in the public domain by reason of the disclosures of the British applications or otherwise. Defendants made no offer of any character with respect to the applications for patents filed by Hyman in Belgium and other foreign countries, or with respect to the granting of patents in those countries, or with respect to any of the secrets of said patent applica-

tions ever getting into the public domain. No witness was put on the stand. No question was asked. Nothing was done except to offer the four documents. This does not amount to an offer of proof. Wigmore on Evidence, 3rd Ed., Sec. 17.

Defendants' argument that the Colorado District Court denied to them the right to present evidence to show that plaintiff's trade secrets were in the public domain by reason of the alleged disclosures in foreign countries is an attempt to build a federal question out of nothing. A federal question resting on a false assumption is clearly deviod of merit. *Parker* v. *McLain,* 237 U. S. 469, 473.

The Colorado courts considered all of the evidence that was offered by the defendants on the issue of whether plaintiff had trade secrets which equity would protect. These courts decided that the formulas and processes relating to chlordane were trade secrets belonging to plaintiff, that plaintiff had done nothing to disclose these trade secrets to the public, that the secrets of chlordane were not in the public domain, and that Hyman and his confederates wrongfully appropriated these secrets to their use and gain in violation of their contractual and fiduciary relations to plaintiff. These are clearly questions of general law and not of federal law. (*Bell Telephone Company* v. *Pennsylvania Public Utility Commission,* 309 U.S. 30, 32; *Kerfoot* v. *Farmers, etc. Bank,* 218 U.S. 281, 288; *King* v. *West Virginia,* 216 U.S. 92, 100; *Mammoth Mining Co.* v. *Grand Central Mining Co.* 213 U.S. 72, 77; *Christman* v. *Miller,* 197 U.S. 313, 319.) Where the decision of a state court rests on adequate non-federal grounds, this Court will not review the decision. (*Herb* v. *Pitcairn,* 324 U.S. 117, 126; *Southwestern Bell Tele-*

phone Co. v. *Oklahoma,* 303 U.S. 206, 212; *Fox Film Corp.* v. *Muller,* 296 U.S. 207, 210; *Lynch* v. *New York,* 293 U.S. 52, 54; *Richardson Machine Co.* v. *Scott,* 276 U.S. 128, 133; *Enterprise Irrigation Dist.* v. *Canal Co.,* 243 U.S. 157, 163-5; *Bacon* v. *Texas,* 163 U.S. 207, 216; *California Powder Works* v. *Davis,* 151 U.S. 389, 393.) Where a state court decision rests on an adequate non-federal ground this Court is not concerned with the correctness of the decision. *Worcester County Trust Co.* v. *Riley,* 302 U.S. 292, 299; *Great Northern Ry. Co.* v. *Sunburst O. & R. Co.* 287 U.S. 358, 365; *Nickel* v. *Cole,* 256 U.S. 222, 225; *Arkansas Southern R. Co.* v. *German National Bank,* 207 U.S. 270, 275.

The second ground brought forward by petitioners (p. 9) to find some peg on which to hang the question of the jurisdiction of this Court is even a greater sham. The decree of the Superior Court of Cook County, Illinois, (R. V, 10-12,) affirmed by the Supreme Court of Illinois, (405 Ill. 352.) and which this Court refused to review, (339 U.S. 966,) settles beyond dispute that "Hyman precluded himself from the exercise of that right [right to make and sell chlordane] by agreement" and "that under the facts of this case Hyman was precluded by his relations with Velsicol from its exercise." These questions cannot he relitigated.

In disposing of the contention that the District Court erred in excluding the proffered exhibits, the Colorado Supreme Court applied the familiar rule that one cannot take advantage of his own wrong. It found that Hyman had complete control of the filing and prosecution of the foreign applications covering chlordane, (R. VI, 26,) that if any disclosures of trade secrets resulted from the

operation of law in these foreign countries upon said applications Hyman is directly responsible for such disclosures, (R. VI, 38,) and that the conduct of defendants in betraying the confidence of plaintiff and in appropriating to their own use and benefit plaintiff's trade secrets is abhorrent to its conception of ordinary honesty. R. VI, 51-55.

Defendants advance the novel theory, rejected by the Colorado courts and by every court that has ever considered the question, that an employee who learns his employer's trade secrets in confidence may insulate himself against a decree of injunction and accounting by making a disclosure of his employer's secrets before he appropriates them to his use and profit. The mere statement of the proposition is its own best answer.

It appears clear that this Court is without authority to review the judgment of the Supreme Court of Colorado and that the petition should be dismissed on that ground.

CASE CORRECTLY DECIDED.

We think we have shown that this case is one to be determined by general principles of equity jurisprudence and is unaffected by anything found in the Constitution, treaties or statutes of the United States and that this Court is without jurisdiction to review the decision of the Colorado Supreme Court. But, if this case were before this Court on the merits, it has been correctly decided and there is no purpose to be served by further review. The decision of the Colorado Court is in full accord with applicable decisions of this Court and of other federal courts and of every state court that has ever passed on a question of similar character. There

is no case which supports the monstrous doctrine, advanced in the petition, that the public interest is served by "dividing the wealth" by the method employed by Hyman and his confederates. Chlordane is the property of Velsicol and defendants have no right to compete in the production and sale of chlordane.

I.

The starting point in this case is not property, but that the defendants stood in confidential relations to plaintiff with respect to chlordane and its other secret formulas, processes and products. Whether plaintiff has been able to keep the secrets of chlordane and methods of producing it from the public generally is not the issue here. Defendants owe the plaintiff a duty with respect to the formulas, processes and products here involved not owed by the members of the public generally. The disadvantage of knowing plaintiff's secrets is a burden defendants cannot escape. Equity will make certain that defendants shall not fraudulently abuse the trust plaintiff reposed in them. (*Dupont Powder Co.* v. *Masland*, 244 U.S. 100, 102; *Stone* v. *Goss*, 65 N.J.. Eq. 756, 55 Atl. 736, 737-8; *MacBeth-Evans Glass Co.* v. *Schnelbach*, 239 Pa. 76, 86 Atl. 688, 693; *Westervelt* v. *National Paper & Supply Co.*, 154 Ind. 673, 57 N.E. 552, 544; *Wireless Speciality Apparatus Co.* v. *Mica Condenser Co.*, 239 Mass. 158, 131 N.E. 307, 310; *Germo Mfg. Co.* v. *Combs*, 209 Mo. App. 651, 240 S.W. 872, 881; Restatement of Torts, Sec. 757, Vol. IV, pp. 5-10.) These cases dispose of the first division of defendants' argument. Pet. pp. 17-24.

The evidence shows beyond point of dispute that plaintiff diligently employed every reasonable means to keep

its secret formulas, processes and products out of the public domain. No defendant denies this. In fact they admit it. (R. II, 195, 197, 201, 204, 431.) Whatever disclosures, if any, were made prior to September 13, 1946, were made by or at the direction of Hyman as the operating head of plaintiff. He was the only person financially interested in plaintiff who had any contact with plaintiff's patent attorneys. (R. II, 351.) He filed the patent applications relating to "Velsicol 1068" (chlordane) in his own name as the inventor and he had complete control of these applications, domestic and foreign. (R. II, 350.) Plaintiff did not and could not have taken any action with respect to the pending patent applications relating to chlordane prior to the time it procured the assignment of these applications after the conclusion of the Illinois case in late 1949. There is a complete absence of evidence that any stockholder, director or officer of plaintiff other than Hyman, had any knowledge of the filing of the applications relating to chlordane in any of the foreign countries or that they had any knowledge of the practice under the laws of these countries with respect to laying applications open to public inspection. If Hyman by his acts has lessened the protection to which plaintiff is entitled from the general public, he cannot take advantage of his own wrong and seek to insulate himself against answering for his breach of faith.

It is conceded that no defendant learned any of plaintiff's secrets from the disclosures made by operation of law in foreign countries or by any publication of the United States Department of Agriculture, but they learned what they know about chlordane and the methods of producing it during and in the course of their employ-

ment with plaintiff. They had not only agreed in writing to protect plaintiff in its secrets but the very nature of their employment placed them under obligation to keep in confidence what they learned in confidence. Whatever defense would be available to one who independently discovered the same secrets defendants discovered in plaintiff's employ, such a defense is not open to the individual defendants who, in breach of their contractual and fiduciary relations, have appropriated plaintiff's secrets to their own use and benefit, nor to the corporate defendant which is the creature and instrumentality of the individual defendants. These defendants conspired and confederated to unlawfully appropriate plaintiff's trade secrets and to unfairly compete with plaintiff and they cannot escape the consequences of their wrong-doing.

It is little wonder that defendants anticipated plaintiff's reliance on the several decisions in the litigation between Shellmar Products Company and Allen-Qualley Company and undertook to distinguish the case. (Pet. p. 20). The reasoning of these opinions is sound, is in harmony with settled law, and has never been challenged in so far as it has any application to the problems at bar. They completely dispose of defendants' contentions that the disclosures with respect to the foreign applications relating to chlordane, if there were any disclosures, can in any wise affect the rights and privileges of plaintiff as against defendants. The District Court (31 F. 2d 293) awarded Allen-Qualley an injunction notwithstanding it appeared that the confection wrapper made under plaintiff's secret process might infringe on another covered by an outstanding patent belonging to a third person, holding that the question involved was the validity in equity of the acts of defendant in receiving in confidence a disclosure of plaintiff's secrets and appro-

priating them to its own use. The Court of Appeals for the Seventh Circuit affirmed this decree. (36 F. 2d 623.) Thereafter defendant filed a bill of review in the District Court to modify the decree of injunction on the ground that the trade secrets of plaintiff had been disclosed to the world through the issuance of United States, British and Canadian patents covering the method and machine involved, and the District Court dismissed this complaint for want of equity. The Court of Appeals affirmed this decree with an instructive opinion, (87 F. 2d 104,) and this Court denied certiorari. (301 U.S. 695.) The facts in that case presented a much stronger situation for the defendant than is presented for the defendants in the case at bar, but the Court of Appeals held in line with the settled law that whatever the opportunities open to the public generally, the defendant, having violated its trust, was barred in equity from using plaintiff's process. It would be difficult to find a case more nearly in point on the facts and equities with the case at bar.

The contention that this decision of the Seventh Circuit is in conflict with the decisions of the Second Circuit in *Picard* v. *United Aircraft Corp.* 128 F. 2d 632, and in *Conmar Products Corp.* v. *Universal Slide Fastener Co.* 172 F. 2d 150, (Pet. p. 20,) has been answered by this Court. It denied certiorari in the first of the two cases, (317 U.S. 651,) and we must assume that if this Court had considered that the decisions of the two Courts of Appeal were in conflict on an important question of law, it would have taken the *Picard* case and resolved the conflict. The facts clearly distinguish the cases. In the *Conmar* case the decision was for the defendant because it was held that he was not under duty under the facts of that case not to disclose the secrets there involved.

Other decisions of federal courts in harmony with the decision of the Colorado Supreme Court in this case on the point that the owner of a trade secret is entitled to protection in equity from its appropriation by one who has learned the secret in confidence, whether the secret is patentable or not, are *Hoeltke* v. *C. M. Kemp Mfg. Co.* (C.A. 4), 80 F. 2d 912, 922, cert. denied, 298 U.S. 673, and *A. O. Smith Corp.* v. *Petroleum Iron Works Co.* (C.A. 6), 73 F. 2d 531, 537, 74 F. 2d 935.

Another case which holds squarely against the contentions of defendants, and the effect of which they seek to avoid by saying that the trade secrets there were disclosed by the employer to the employee rather than by the employee to the employer, is *Vulcan Detinning Co.* v. *American Can Co.* 72 N.J. Eq. 387, 67 Atl. 339. We submit that the new attorney for defendants has read the opinion in this case carelessly. Vulcan brought suit against American to restrain the latter from using a secret process for separating tin from iron in tin scrap. German scientists discovered the process and one Laernos pirated it. Adolph Kern organized Vulcan Metal Refining Company and began using the stolen process in this country. Vulcan Detinning Company acquired Kern's company and the process which it kept secret. Franz Assman, one of the original incorporators of Vulcan Metal, had one of four copies of the process in his custody. Subsequently he sold his stock in Vulcan Detinning and became associated with American Can as its president. American installed two plants using a process of detinning similar to the process used by Vulcan, having employed for this purpose three former employees of Vulcan. These facts show clearly that Vulcan, like Velsicol, learned the trade secrets from an employee who,

like Hyman, later undertook to appropriate them. Certainly Vulcan did not communicate anything to its organizers who had obtained the secrets before Vulcan was organized. In holding that Vulcan was entitled to an injunction to protect its process from use by those who had control of its trade secrets by virtue of the confidential relation, the Court said in part: (67 Atl. 343)

> "Looking, now, a little more closely at the nature of the relief called for by the complainant's case which we are now enabled to do in the light of the issues that have been actually tried, we shall see, I think, that too much emphasis has perhaps been placed upon the element of absolute secrecy in the process, and that not enough stress has been laid upon the inequitable character of the defendants' conduct in making a use of such process that was inimical to the complainant's interests. * * * I am now saying that the main ground for relief disclosed by the complainant's case is the existence of inequitable competition arising from a breach of trust, and hence referable to general principles of equity, and not to those special doctrines by which unpatented secrets are protected. In the application of these general principles the secrecy with which a court of equity deals is not necessarily that absolute secrecy that inheres in discovery, but that qualified secrecy that arises from mutual understanding, and that is required alike by good faith and by good morals. * * *
>
> "The conclusions to which the foregoing considerations lead is that, entirely aside from the technical secrecy of the process or the abstract question of property therein, the complainant is entitled to have its trustee, his associates, and their servants restrained from using against the interests of the complainant the very process with which its trustee was intrusted for its benefit."

Schavoir v. *American Rebonded Leather Co.* 104 Conn. 472, 133 Atl. 582, is another case where the plaintiff was given protection in equity notwithstanding he made use of elements in the manufacture of channel cloth which, in certain combinations, were covered by an old patent which he did not own, since a trade secret will be protected from wrongful disclosure though the owner of the secret cannot secure property rights in it under the patent law. In that case the defendant's knowledge of the process came to it in confidence, and its defense on the ground that the secret was in the public domain was denied, the Court saying: (133 Atl. 583)

> "It is open to any one to use the same process, provided they came by the necessary knowledge fairly. * * * The knowledge of the process which the defendant had was obtained by reason of the confidence reposed in it by the plaintiff and upon its express promise not to divulge the information so secured and to use the formula only as authorized by the plaintiff. * * * In such a situation, the right of the plaintiff to protection in equity is amply established."

It is well settled that the fundamental basis for relief in a case of this character is a violation of trust and confidence and that the case must be determined on general principles of equity and not upon technical rules relating to discovery and invention. *DuPont Powder Co.* v. *Masland,* 244 U.S. 100, 102; *Wireless Specialty Apparatus Co.* v. *Mica Condenser Co.* 239 Mass. 158, 131 N.E. 307, 310; *Germo Mfg. Co.* v. *Combs,* 209 Mo. App. 651, 240 S.W. 872, 882; *State* v. *Neal,* 152 Fla. 582, 12 So. 2d 590, 592; *Meinhard* v. *Salomon,* 249 N.Y. 458, 164 N.E. 545, 546; Nims on Unfair Competition, 4th Ed. Secs. 149-151.

The cases cited by defendants (Pet. p. 19) to the effect that "a restraint of trade cannot be based upon an estoppel" have no relation to the facts in the case at bar. *MacGregor* v. *Westinghouse E. & M. Co.* 329 U.S. 402; *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394, and *Sola Electric Co.* v. *Jefferson Electric Co.* 317 U.S. 173, presented the question whether a licensee by virtue of his license agreement is estopped to challenge a price-fixing clause by showing that the patent is invalid and that the price restriction is accordingly unlawful because not protected by the patent monopoly, and it was held that this defense was available to the defendant. These cases came up through the federal courts and in each case the Sherman Anti-Trust Act was specifically pleaded as a defense. In this case no title, right, privilege or immunity asserted by the defendants grows out of the Sherman Anti-Trust Act and in such situation no federal question is presented. (*Los Angeles, etc. Co.* v. *Los Angeles,* 217 U.S. 217, 228; *Allen* v. *Arguimbau,* 198 U.S. 149, 155; *Allen* v. *Southern Pacific R. Co.* 173 U.S. 479, 489; *Miller* v. *Lancaster Bank,* 106 U.S. 542, 544; *Long* v. *Converse,* 91 U.S. 105, 113; *Hale* v. *Gaines,* 22 How. 144, 160; *Montgomery* v. *Hernandez,* 12 Wheat. 129, 132.) It was never the purpose of the Sherman-Anti-Trust Act to protect the possessor of stolen property. *Scott Paper Co.* v. *Marcalus Mfg. Co.* 326 U.S. 249, presented the question whether the assignor of a patent is estopped by virtue of his assignment to defend a suit for infringement of the assigned patent on the ground that the alleged infringing device is that of a prior art expired patent, and of course it was held that the defense was available. No such question is presented by the record in this case.

To hold, as defendants suggest this Court should do, that an employee may invoke the anti-trust laws as a defense to a violation of his fiduciary and contractual obligations to his employer would open the door to fraud and breach of trust. The obligation of an employee, whether imposed by express contract or arising from the relationship of the parties, not to appropriate to his own use the trade secrets of his employer is clearly not an agreement in restraint of trade. Competition is unlawfully restrained only when competitors who have a right to compete with each other are precluded from so doing. Defendants, as the Colorado Supreme Court has properly found, have no such right so far as chlordane is concerned. It is the property of plaintiff. Defendants have no rights in or title to it.

The argument that plaintiff has adopted the acts of Hyman in filing the chlordane applications in foreign countries (Pet. p. 21) does not change the fact that Hyman claimed to be the owner of the patent applications relating to chlordane, that he filed the applications for his benefit and not for the benefit of plaintiff, that he had complete control of the filing and the prosecution of the applications and that plaintiff got no control of these applications until after it had won its suit in Illinois to compel Hyman to assign these applications to it. Plaintiff's control came after the damage was done.

Neither reason nor authority supports the argument of defendants (Pet. p. 22) that Hyman occupies a sheltered position because he was the inventor of chlordane and that he did not learn the secrets of chlordane from plaintiff or any of its other employees. *Pomeroy Ink Co.* v. *Pomeroy,* 77 N.J.Eq. 293, 78 Atl. 698, is squarely in point against the argument. Eltweed Pomeroy was the

president and general manager of Pomeroy Bros. Co. and the trade secrets involved were largely the result of his discoveries and experiments. Pomeroy Ink Co. purchased the assets of Pomeroy Bros. Co., which included the trade secrets. Eltweed Pomeroy became an employee of Pomeroy Ink Co. and was given charge of promoting the sale of its products which were made by secret processes. After he left the employ of the Company he offered the secret formulas and processes to others, claiming that he had the right to sell these formulas and processes because he was the inventor. Disposing of this defense, the Court said: (78 Atl. 699-700)

> "The present case is not one where complainant's right to the use of the formulas and formula notes, as against the defendant, depends upon the principle of confidential communication, for, as to this feature of the case, the defendant while an officer and manager of the company was himself the inventor or discoverer of the process, and communicated it to the company. But the vital question in the case is whether the defendant, the discoverer or inventor of the processes disclosed by the formulas, transferred to the Pomeroy Bros. Co. the exclusive right to the formulas and formula notes as their property. If so, such transfer is binding on him and passed with the assets of the company to the complainant."

After analyzing the facts and finding that the complainant, Pomeroy Ink Co., was the owner of the formulas and processes, the Court applied the principle of the cases which grant relief for breach of confidential communication of trade secrets and held that Pomeroy should be enjoined from disclosing the secrets and appropriating them to his use and gain. Since it has already been finally determined by the decree of the Illinois court that plaintiff is the owner of the chlordane secrets, it follows that

Hyman and his confederates have no right to use these secrets in competition with plaintiff notwithstanding Hyman is the inventor.

Another case holding that the inventor should be enjoined from carrying away the invention belonging in equity to his employer and disclosing it to a competitor is *Wireless Specialty Apparatus Co.* v. *Mica Condenser Co.*, 239 Mass. 158, 131 N.E. 307. Wireless had been engaged in making radio condensers for the United States during World War I and on the signing of the Armistice it became apparent that the industry would be seriously affected, if not ended, unless the company could produce magneto condensers to be sold to manufactures of elecrical apparatus. After extensive experiments plaintiff's employees succeeded in bringing about the necessary changes. McPherson, one of the employees, made application for letters patent on the inventions and he assigned these inventions to a competing company. The Court held that, whatever the decision in a separate case to require the assignment of the patent applications (the Illinois case by plaintiff against Hyman, 405 Ill. 352), plaintiff was entitled to protection from misappropriation of the secrets obtained by its employees in the course of their employment (the case at bar), saying: (131 N.E. 310)

> "Although the first suit is decided on the basis that the plaintiff is entitled to relief because it is the equitable owner of the inventions already considered, it does not follow that it can get nothing under the second bill. It may be that no patent will issue because of lack of novelty or other reason and that the plaintiff will in fact receive nothing of value under any decree entered in the first suit. The fact that an invention is patentable does not compel the taking out of a patent, nor prevent the person entitled to it from keeping it secret, nor bar him from equitable

relief against those disclosing its existence and details in violation of trust and confidence, nor as against those who obtain knowledge through such violation with notice and purpose to make use thereof. The fundamental requirement for relief is a violation of trust and confidence."

Conclusive against defendants' position is the fact that Hyman appropriated the secrets of "237", covered by the Herzfeld-Lidov-Bluestone applications owned by plaintiff, in making the compound covered by the chlordane applications. Hyman knew nothing about the basic compound "237", which is an essential ingredient of the improved insecticide "1068", or chlordane, until "237" was discovered and developed in plaintiff's laboratory by plaintiff's employees who were under contractual and fiduciary obligations to plaintiff to assign the "237" invention to plaintiff. Herzfeld, Lidov and Bluestone complied with their duty to plaintiff and assigned the patent applications relating to "237" simultaneously with the execution of the applications. Hyman knew this and as the executive head of Velsicol accepted the assignment for Velsicol. Therefore the phony defense that he did not learn the secrets of chlordane from those in confidential relations to plaintiff blows up in his face. His contribution to the invention of chlordane was to suggest that "237" be chlorinated. To his amazement, as well as that of the other chemists employed by plaintiff, this resulted in an entirely new composition of matter which was an unusually effective insecticide and so he became the inventor. To say that these circumstances of the invention of chlordane by Hyman insulate him against a suit for accounting for appropriation of the chlordane secrets in wrongful competition with plaintiff is to introduce a new conception of equity and honesty. The decision in the Illinois case disposed of this defense and held Hyman accountable.

II.

The questions presented under the second division of petitioners' argument (pp. 24-37) have all been conclusively settled by final decisions of the Illinois courts. It does not appear that the distinguished attorney, brought into this case to prepare and present this petition, is familiar with these earlier decisions.

Issues squarely presented in *Velsicol Corporation* v. *Julius Hyman,* 405 Ill. 352, were the existence, interpretation, validity and enforceability of the agreement between the parties, and the Court made a specific finding that the agreement was executed and delivered as alleged in the complaint, that it covered chlordane and the patent applications relating thereto, and that it was valid and enforceable in equity. The Supreme Court of Illinois affirmed the decree compelling Hyman to assign the chlordane applications and enjoining him and others in privity with him from using the formulas, processes and products covered by the applications and from disclosing them to anyone other than plaintiff. This Court refused to review the decision of the Supreme Court of Illinois. 339 U.S. 966.

Where the existence, validity and interpretation of a contract has been adjudicated in one action it is conclusive between the same parties and their privies in another action. *Wilson's Executor* v. *Deen,* 121 U.S. 525, 532; *Silurian Oil Co.* v. *Neal,* 277 Ill. 45, 50; *Albertson* v. *Clark,* 70 Colo. 129, 130; Freeman on Judgments, 5th Ed. Sec. 894.

Even if the question of the validity, interpretation and enforceability of Hyman's agreement with Velsicol were open for review, the decision of the Colorado court is

supported by the decisions of all federal and state courts which have dealt with like questions. (*New Jersey Zinc Co.* v. *Singmaster*, 4 F. Supp. 967, aff. 71 F. 2d 277, cert. denied 293 U.S. 591; *Paley* v. *DuPont Rayon Co.* (C.A. 7) 71 F. 2d 856, 858; *Hulse* v. *Bonsack Machine Co.* (C.A. 4) 65 F. 864, 868; *O. & W. Thum Co.* v. *Tloczynski*, 114 Mich. 149, 72 N.W. 140, 144.) The individual defendants worked under these agreements for the respective periods of their employment and there was no difficulty in interpretation while the parties were working in harmony. It was only after defendants had violated the agreements and plaintiff was obliged to bring defendants to account that it occurred to the defendants that the agreements were unduly restrictive and were against public policy. The rule is settled that a party cannot contend after a dispute has arisen for construction of an agreement in violence of the interpretation he has given the agreement in his dealings with the other party during the period they were working in harmony. *Magnetic Mfg. Co.* v. *Dings Magnetic Separator Co.* (C.A. 7) 16 F. 2d 739, 741, cert. denied, 274 U.S. 740; *Street* v. *Chicago Wharfing Co.* 157 Ill. 605, 614; *Hinkle* v. *Blinn*, 92 Colo. 302, 304.

The repeated assertion that Julius Hyman and Joseph Regenstein were engaged in a joint venture and that the corporate character of Velsicol Corporation should be ignored has no support in the record. The fact is that Hyman sought Regenstein's assistance in the organization of a corporation to establish and operate a research laboratory to test, prove and develop some ideas which Hyman had with respect to the use of petroleum refining by-products and to carry on research and experimentation generally in the field of chemistry. (R. II, 178-181, 261.) Hyman had had extensive college training in chemistry

and some experience in research and Regenstein and his business associates in Arvey and Transo relied on Hyman's judgment as to the business possibilities. (R. II, 132-135, 267-274.) Plaintiff was regularly organized as a corporation under the laws of Illinois and was regularly conducted as such. Hyman became a director, officer, general manager and director of research of plaintiff and conducted its affairs as a corporation from the date of its organization in January, 1931, to the date of his resignation in September, 1946. He cannot now challenge plaintiff's corporate existence and pretend the undertaking was a mere joint venture. (*Kardo Co.* v. *Adams*, (C.A. 6), 231 F. 950, 967; *Bushnell* v. *Consolidated I. & M. Co.*, 138 Ill. 67, 74.) Furthermore, Hyman filed a suit in the Superior Court of Cook County, Illinois, in December, 1946, setting up his rights as a stockholder in Velsicol and sought to set aside certain recapitalization proceedings. This was inconsistent with his claim that he was a partner of Joseph Regenstein and not a stockholder in Velsicol Corporation. He lost this suit. *Julius Hyman* v. *Velsicol Corporation*, 342 Ill. App. 489. Leave to appeal was denied by the Supreme Court of Illinois. 343 Ill. App. ii.

The decrees in the Illinois cases could not have been entered except that the Illinois courts found against every contention made by the defendants under Division II of their argument. Defendant Hyman made substantially the same arguments in the Illinois cases that he makes here and cited substantially the same authorities. The decrees in these Illinois cases conclude all parties and their privies as to matters essential to said decrees. (*Hart Steel Co.* v. *Railroad Supply Co.*, 244 U.S. 294, 298; *Elmhurst* v. *Kegerreis*, 392 Ill. 195, 203; *Clark* v. *Knox*,

32 Colo. 342, 348.) Under Section 1, Article IV of the Constitution of the United States full faith and credit must be given to these judicial proceedings in Illinois. *Magnolia Petroleum Co.* v. *Hunt*, 320 U.S. 430, 438-9.

Conclusion.

The Supreme Court of Colorado has not decided a federal question of substance nor has it decided a case not in accord with applicable decisions of this Court. The decision of that Court rests on adequate and independent state grounds and under the decisions of this Court there is no authority for further review.

Furthermore, the case is correctly decided and presents no new question which would justify this Court in reviewing it if it had the authority.

Velsicol Corporation, respondent, prays that this petition be dismissed or denied for the reasons stated in this answer.

Respectfully submitted,

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